

DIARY

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February 16 - February 29, 1936

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Sunday, February 16.

I 'phoned George Haas and asked him if he did not have somebody to handle the bond market and he said he did; that he had a man by the name of Murphy who had been working with Coolidge.

I sent for Bell and had three-quarters of an hour walk with him. I wanted to find out who the regular Civil Service people were who assisted in the financing, as I really did not know. Bell said that that was really his job and that his organization was supposed to do that; that once the new financing was agreed on, they turn it over to Broughton who, in a sense, was a production manager and got out the forms and blanks and notified the Federal Reserve Banks, etc.

I asked Bell if he had anybody to help him and he said he really did not have very good people and that he had a man by the name of Collins, but he did not have sufficient experience. I asked him if he knew Murphy and he said yes and that he would be glad to have him and use him until the Under-secretary came.

I told Bell that for the next 30 days I expected to handle the financing myself and that I would want him to work very closely with me and that at the end of that time, if and when I had an Under-secretary, I could turn the financing over to him; that I expected to have Burgess come down quite frequently to help. We discussed the problem and agreed that on March 15, in addition to the new money, we should pick up the bill coming due on the 15th of March and maturity in April. Then we should do no more financing with the exception of the bills that we would sell weekly until the 15th of June and then in August, when we have another maturity coming due, we could pick up that maturity plus a September maturity that is coming due, roll them over in August, and that then with the exception of our weekly bills we would be out of the market until after election.

This sounds like a grand plan to me. After my talk with Bell, the whole thing shapes up in my mind and I really feel quite confident that I can swing it for the next 30 days without any Undersecretary, but I am going to stop doing certain things which I have been doing and I must allow plenty of time, each day, to study the bond market.

February 17, 1936.

A group met in the office of the Secretary of the Treasury to discuss financing.

Those present were:

Henry Morgenthau, Jr., Secretary of the Treasury,
W.R. Burgess, Deputy Governor, Federal Reserve Bank of New York,
D.W. Bell, Director, Bureau of the Budget,
G.C. Haas, Bureau of Research & Statistics,
C.B. Upham, Assistant to the Secretary.

Mr. Bell stated that he was working on the assumption that we would raise \$750 million new cash in March and a like amount in June. The first \$750 million will give us a balance of \$1.2 billion in June and the second \$750 million will give us a balance of \$1.9 in July and will last until the end of September. The balance is not expected to drop below \$1 billion during the period. This is all exclusive of the bonus, it was stated.

Mr. Morgenthau asked if there is any reason why we should not give an exchange security for the \$450 million of bills due March 16th.

Mr. Burgess thought it would be preferable to pay them off in cash since the bills were sold with an informal understanding given by Mr. Coolidge to the press that they would carry no conversion rights. He said it would be in effect an exchange anyway.

Mr. Bell saw some advantages from the standpoint of Treasury routine in an exchange.

Mr. Burgess thought that it would be satisfactory to say that the maturing bills would be accepted in payment for the new issues

but with no preferred allotment.

Mr. Bell said that Treasury receipts in March should approximate \$600 million, of which \$400 million will be new income taxes. If there is a cash offering of \$1.2 billion, Federal Reserve bank balances will total \$1.7 billion. With disbursements of \$800 million this will leave \$800 million cash in the Federal Reserve Banks.

Mr. Bell and Mr. Burgess recommended that we let the present balance of \$500 million run down prior to March 15th. Mr. Burgess suggested a program of \$600 million bonds and \$600 million notes, all for cash, on a split offering basis. He would let the holders of notes maturing in April have their choice of which one to take. Out of the \$1.2 billion he would pay off the \$450 million of bills leaving \$750 million new money.

Mr. Burgess agreed with Mr. Morgenthau that he would not take up the June maturities in March as Mr. Coolidge has suggested. He thought the September 15th maturities should be picked up in August if the August maturities had not been picked up in June.

Mr. Morgenthau inclined toward an operation in August to take up the September 15th maturities.

It was suggested that conditions in September 1934-35 were not satisfactory.

Mr. Morgenthau asked which was better from the market standpoint, \$600 million bonds and \$600 million notes or a split of \$450 million and \$750 million.

Mr. Burgess thought the \$600 million combination the better.

Mr. Morgenthau commented that 10% of \$1.2 billion was greater

than 10% of \$750 million, referring to the leeway over and above the offering which may be accepted.

Mr. Burgess thought the market in such condition that we did not need to worry about that in any event.

It was suggested that a start on bills to pay the bonus be deferred until April 1.

Mr. Bell said that the program called for expenditures of a maximum of \$300 million a month.

Mr. Morgenthau suggested that if there were an announcement that the bonus would be financed by bills, the bond market might strengthen.

Mr. Burgess said there was no need to worry about the bond market.

Mr. Morgenthau referred to the frequent stories that are brought to the President about the financial community going on strike.

Mr. Burgess replied that they need securities as much as the Treasury needs money. He said that insurance companies have half a billion dollars cash. He made the rounds of the banks and dealers on Saturday and they all say that they need securities. There are a number of buying programs involving considerable amounts of purchases.

There was some discussion of note maturity. Mr. Morgenthau was of the opinion that it would be a sign of weakness to go below 5 years.

Mr. Burgess thought a 5 year maturity would be handled at $1\frac{1}{2}\%$ flat without any difficulty. If the maturity were September, 1940, a better rate would be secured, probably $1\text{-}\frac{3}{8}\%$, or if the maturity

June, 1940, a 1-1/2% note could be sold at par and a half. Turning to a discussion of bonds, Mr. Burgess suggested that there were two choices, a longer 2-3/4% or a shorter 2-7/8%.

Mr. Morgenthau gave his idea as a 1950-60 bond for 2-7/8%. He mentioned that the period between 1945-50 is already pretty crowded.

Mr. Burgess said that such a security would probably sell although he raised the point of 10 year spread and referred to that as a "Mellon trick".

Mr. Morgenthau said that if he went out as far as 1965 the rate would have to go up and that he thought he would be criticized if he went beyond 2-7/8%. A 1950-60 bond would sell on the 1950 basis and be a little sweeter.

Mr. Morgenthau and Mr. Burgess agreed that Mr. Coolidge's idea of selling more of the present 2-7/8% is not good.

Mr. Burgess referred to it as "sour", saying that holders who have taken losses on a security fight shy of it. He thought that a 2-7/8% bond is a little better from the Treasury viewpoint. He suggested that the market might take a 2-3/4% a little better. He said the market deadline on what they will take has been extended in recent weeks.

Mr. Morgenthau discussed with Mr. Burgess the possibility of inviting some bankers down from New York to discuss the situation. He said that if he were worried he would not ask anybody because he is not a good bluffer.

They agreed that he should ask Mr. Gordon Rentschler of the National City Bank and Colonel Pope of the First Boston Corporation.

To ask any others, Mr. Burgess thought, might lead to some criticism about people being let in on the ground floor. He thought that both Rentschler and Pope would keep it quiet.

It was left that one or two others might be asked following further conversations between Mr. Morgenthau and Mr. Burgess.

Mr. Burgess suggested Ben Levy as the man to whom he talked in Salomon Bros. and Hutzler.

Mr. Morgenthau asked Mr. Upham to outline the morning discussion to Chairman Eccles for his benefit and to ask him to arrange for a meeting of the Executive Committee of the Open Market Committee for Wednesday, February 26th at 11 A.M.

Mr. Burgess thought it desirable to confer with them because of the effect that the financing would have on excess reserves.

Monday
February 17, 1936

HM, Jr: Hello
Bill
Myers: Hello, Henry

HM, Jr: How are you?

M: Fine, and you?

HM, Jr: Oh, pretty well. Bill, do I understand correctly that you have enough cash funds to last you for several months now?

M: Several weeks?

HM, Jr: Several months -

M: You mean Land Banks?

HM, Jr: Well, any cash that you've got to go to the market for.

M: Well, let me check and call you back.

HM, Jr: Well, I understood that they'd sold the last of what you were selling last week. I mean that you're out of the market now until the first of July - ?

M: Well, we - we have a refunding issue May first.

HM, Jr: Yes, I'm not counting that.

M: But new money?

HM, Jr: New money

M: The Land Banks are out and I - if - I'll check and see.

HM, Jr: And call me back?

M: Yes

HM, Jr: You don't know what that refunding - how much it is May first?

M: Yes, a hundred and eighty-five million.

HM, Jr: A hundred and eighty-five million?

M: Yes

M: Now we did not intend to get any new money. Just call it - I mean, just take care of the refund -

HM,Jr: Well, as I understand it, I just want to have my records straight, that you don't need any - go to the market for any new money from now until July first?

M: I'll check and let you know.

HM,Jr: Will you do that?

M: Say, Henry -

HM,Jr: Yes

M: Do you ever think of Walter Tufts?

HM,Jr: 'What's his name' suggested - now, you mean for what position?

M: Well, the Under-secretary, or Assistant -

HM,Jr: Is he good enough for that?

M: Well, I don't know. He's good, I - my personal opinion is that he's - he's just as good as Gene Black.

HM,Jr: Really?

M: But I don't know enough about it intimately - he really is a fine chap and he knows a lot of the investment crowd. And he does his own thinking and he's loyal - I think he's a good man.

HM,Jr: Where did you get him?

M: Well Jeff gave us his name. He - he was in some Trust Company in New England that folded up - not - with no reflection on him. It was hay-wire when he went there.

HM,Jr: Have you got - have you got his record?

M: Yes

HM,Jr: Could you send it over to me?

M: Yes, sir

HM,Jr: And mark it -

M: 'Confidential'

HM,Jr: Yes, see that I get it.

M: I'll do it.

HM,Jr: Send me over his record - I'd be delighted to look at it.

M: Well, we're - we're not delighted to lose him, but it's only that he might be worthy of consideration.

HM,Jr: Is he a Democrat?

M: I don't know - I know he's a New Dealer.

HM,Jr: Yes, well, will you get out his record and his personnel file and -

M: Yes, yes

HM,Jr: Send it - make sure it gets to my - to me?

M: I'll do it.

HM,Jr: And then -

M: I'll call you back in a few minutes, and -

HM,Jr: Thank you.

Monday
February 17, 1936

HM, Jr: Hello -
Wm. I.
Myers: Henry?

HM, Jr: Yes - Bill?

M: Yes

HM, Jr: Hello, Bill -

M: We need ten or fifteen millions for the Mortgage Corporation to carry us through July - till July.

HM, Jr: Well, when do you need that?

M: Well, we could - what we've been doing is selling a few when the market was strong.

HM, Jr: Well, Jeff told me that you had - I don't know how much you were out of the market.

M: Well, we have fifty million.

HM, Jr: Fifty million?

M: And it would last us but we don't like to run down. You know, we've been keeping a minimum of thirty or forty - thirty million or so, so that sometime, say in May, if it suits, we'd like to - or whenever the market is strong enough we could sell six or eight or ten million - and not in public offering, we've just been selling them -

HM, Jr: Well, what - what is the security that you sell?

M: The Federal Farm Mortgage Corporation Bond.

HM, Jr: Is that guaranteed by the Government?

M: That's completely guaranteed

HM, Jr: Well, could we have this understanding, that you won't sell any more without first taking it up with me? ✓

M: That's right. We've been checking with Jeff -

HM, Jr: Yes

M: And we've got plenty of money and we could run until May -

HM,Jr: Yes

M: And if the market should look good would it be all right for us to call you?

HM,Jr: Yes, but the point is, we start it on the second of March - that's why I'm checking up, you see?

M: Yes

HM,Jr: And from March second on or just before that I'd like to have the decks clear, but just as long as we understand that you won't sell any more without first calling me -?

M: That's right.

HM,Jr: That'll be fine.

M: Henry, Walter ^{tufts} is a registered Republican.

HM,Jr: Oh -

M: But he's - he hasn't - he's been independent - he's helped elect a Democratic man - W - he's been highly in favor of this Administration -

HM,Jr: Yes - well, if you'll send me over his personnel record -

M: O. K.

HM,Jr: And - what do you pay him?

M: Well he's getting eighty-five hundred now, I think.

HM,Jr: I see.

M: We've been going to use him as an Assitant to Charlie Dunne in New York - it would probably pay him ten.

HM,Jr: Yes.

M: But I don't want to stand in his way. We looked a long time -

HM,Jr: Yes

M: - to find somebody with those qualifications.

HM,Jr: Yes

M: He's done very well.

HM,Jr: How good - he's a bond man?

M: Yes

HM,Jr: Yes

M: He's negotiated - done the details for Hill in our refunding operations, checking with Jeff -

HM,Jr: Yes

M: He's thoroughly reliable, he's a fine fellow -

HM,Jr: Yes

M: And I think he's got the contacts and I think he's good.

HM,Jr: Well, if you'll let me -

M: I'll send it to you.

HM,Jr: Will you?

M: You bet.

HM,Jr: How do you spell it, T-u-f-t-s ?

M: Right

HM,Jr: And - what's his first name?

M: Walter

HM,Jr: Walter Tufts? - How old is he?

M: Oh, between forty and forty-five.

HM,Jr: I see. There's something else I want to ask you - now, - oh yes, I know what I want to ask you, supposing the President vetoes that seed loan bill, see?

M: Yes

HM,Jr: Hello?

M: Yes

HM,Jr: Is there any place vacant to get the money from? - else - any other place?

M: No

HM, Jr: When do you start that?

M: Well, it - it ought to be started some time in March.

HM, Jr: Yes

M: Here's the trouble, Henry -

HM, Jr: Yes

M: Tugwell can't handle four hundred thousand loans quickly.

HM, Jr: He can't what?

M: He cannot handle this emergency crop loan fast enough.

HM, Jr: Yes

M: We make four hundred thousand loans in a few months.

HM, Jr: Yes

M: It's a big machine operation.

HM, Jr: Well, who handled that for you?

M: Emergency Crop Loan

HM, Jr: Oh, you have a special organization?

M: Yes

HM, Jr: Well, is that set up now?

M: Yes

HM, Jr: Oh, you mean you've got a seed loan organization?

M: Yes

HM, Jr: How many people are there in it?

M: Oh, a little less than two thousand.

HM, Jr: Yes

M: We've got to collect the old loans anyway.

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HM, Jr: Yes

M: It's the cheapest way that I know of to help three or four hundred thousand people keep off relief.

HM, Jr: Yes

M: And that's the only excuse for it. And it isn't needed very badly except in the drought areas. But there are three or four states that were badly hit last year -

HM, Jr: Yes

M: And I think it would hurt the Administration seriously if it were cut off this year.

HM, Jr: Yes, well, why don't we loan - give everybody fifty dollars worth of gasoline - every gas station in America - they can't get any credit - ?

M:

HM, Jr: What?

M: A little different.

HM, Jr: No - we're not - we have no credit organization to take care of every merchant in every town and every village in the United States.

M: Yes

HM, Jr: Why don't we give everybody in the feed business fifty dollars worth of credit? I mean why carry the credit business down to the irreducible minimum in Agriculture? You don't do it in the cities, you don't do it in the Villages.

M:

M: There isn't any other group where the individual outlay has to have credit.

HM, Jr: Well, why -

M: The rest of them wouldn't -

HM, Jr: Why wouldn't every gasoline station in America - I don't know how many there are - why shouldn't they have fifty dollars worth of credit?

M: Of course they buy and sell - the farmer -

HM,Jr: Well, your old figures show that up - in nineteen thirty-four up to the first of January that only fifty-eight percent had turned the money back.

M: That's right. Now, they've paid back ninety percent, pretty nearly, except in the drought areas. Well, I'm a poor man to argue against it because -

HM,Jr: Well, I've been up there - I'm not going to - I've kept away from arguing as to the needs of the thing -

M: Yes

HM,Jr: I didn't argue it Saturday, whether the thing was needed or not.

M: Yes

HM,Jr: And I'm not going to get in on that side of it. I'm simply going to stick to my argument that if there's fifty million dollars worth of seed loans there's fifty million dollars worth of new taxes.

M: It ought - Well, I think that's all right but it ought to come out somewhere else.

HM,Jr: Well, I'm going to stick to that - - either fifty million seed loan - fifty million taxes.

M: Personally -

HM,Jr: Or - that we issue fifty million dollars worth of promised currency, how would you like that?

M: I'd rather have the taxes.

HM,Jr: Well, it's one or the other, it's either fifty million promised currency or fifty million dollars worth of taxes.

M: Don't get me wrong.

HM,Jr: No

M: I don't give a damn -

HM,Jr: Or, do what Garner said, let's set up a permanent organization with a revolving fund and we'll have seed loans until we die.

M: Well, I -

HM,Jr: That's what Jack Garner says.

M: Yes - they're politically - they're like -

HM,Jr: Well, my position on the Hill/^(Treasury)Saturday - I stuck to this-it's just a matter of the/ it's not in the Budget - the President only the first week in January said any new legislation means news taxes -

M: Yes

HM,Jr: And I am going to stick to that. And I didn't get into the argument whether seed loans were necessary or not. And I kept out of it.

M: I got some repercussions from the Hill and they appreciated the talk and thought you were - in your position you were entirely right.

HM,Jr: Did you talk to Marvin?

M: He called me.

HM,Jr: He told you about my position?

M: Yes

HM,Jr: He said that I stuck to my physical position?

M: Yes

HM,Jr: And Marvin didn't resent it?

M: No!

HM,Jr: What?

M: No! not a bit. He said he thought you were right from your point of view -

HM,Jr: Well, I said -

M: But he thinks that it will hurt the President like the devil if they don't - if he doesn't give them the seed loan.

HM,Jr: Well, I didn't - I - Marvin said maybe he can get it somewhere else. I said, 'Marvin, I am going to just stick to my own position, any money outside of the Bonus - the Budget, means taxes'.

M: How about Works Progress?

HM,Jr: How do you mean? - I told Marvin -

M: Relief for next year.

HM,Jr: Oh well, that's in the Budget. The President said not more than two billion one hundred and thirty-six.

M: Yes - I think - I believe that if you took fifty million out of that -

HM,Jr: Well, I told Marvin, I said, 'If you can find it I'm not going to fight you'.

M: Yes

HM,Jr: '... if you can find it somewhere else.'

M: Yes

HM,Jr: Marvin didn't go away sore.

M: No, not a bit.

HM,Jr: What?

M: Not a bit -

HM,Jr: No, he wasn't sore.

M: And I don't care whether it's passed or not, but I think it would be a mistake not to take it out somewhere else -

HM,Jr: I told Marvin, 'If you can find some place under some existing appropriation I am not going to fight you, I didn't last year.'

M: Yes

HM,Jr: 'But I am going to fight for taxes to pay for the stuff if it doesn't - if it comes - if it doesn't come out of some existing.' And I went away feeling that he didn't feel unfriendly.

M: He did not.

HM,Jr: Good.

M: All right, Henry.

HM,Jr: Thank you.

Monday
February 17, 1936

HM, Jr: I've got to kind of keep in touch
with you now until we get an Under-Secretary. I hope
you won't consider it too much of a hardship.

John
Fahey: Not a bit of it.

HM, Jr: And

F: Has Jeff gone?

HM, Jr: He's gone -

F: Yes

HM, Jr: And I have no Under-Secretary. Now, as I understand it
from Jeff, you've got all the money that you need for
the market for several months, cash, I mean?

F: Well, I think so.

HM, Jr: Well, would you check up?

F: I will - the last I knew - Augustine was checking with
Jeff on it -

HM, Jr: Yes

F: And I thought it had been cleared. I'll find out right
off and let you know.

HM, Jr: And will you call me back?

F: I will,

HM, Jr: Thank you

F: You'd like to know right off?

HM, Jr: Well, I - I've just cleared it with Bill Myers and he
tells me he's out of the market. The reason is this,
confidentially, we go in for our big financing on the
second of March -

F: Yes

HM, Jr: For the Government -

F: Yes

HM, Jr: And I want all the decks cleared, you see? ✓

F: Oh, well I don't think that my impression is that there isn't a Chinaman's chance about interfering or wanting anything at all.

HM,Jr: Well, Jeff told me he thought you had enough money until the first of July, but if you wouldn't mind checking it -

F: I'll check with - I'll check right off.

HM,Jr: And then, as I say, until we get somebody if you've got something that's important up there, you call me direct and I'll try to be of service.

F: All right, I - I'll - I know the burdens you are carrying and I wanted to know you'd call if it's necessary.

HM,Jr: Well, if you've got something that you think you want to clear - if you'll call me I'll do the best I can.

F: All right - say, there is one thing, just while you're on the line - I meant to talk to Bell about it but I didn't get a chance.

HM,Jr: Yes

F: You know - you remember the plan that the President had - ?

HM,Jr: Yes

F: - that we should not reply to any requests from these committee chairmen up here relative to pending legislation without running the stuff through the Bureau of the Budget?

HM,Jr: Yes

F: Well, we - Fletcher has been after us persistently on this Mortgage Re-discount Bank Bill up there - National Association of Real Estate Boards -

HM,Jr: Yes

F: And we finally drafted and redrafted a letter on it and it's been over there for about a month now.

HM,Jr: In the Budget?

Yes

HM,Jr: Well now, on that -

I don't know whether you have that or not -

HM,Jr: No, I don't, the Budget you know technically is under the President -

Yes

HM,Jr: And I never see that stuff.

Well, I see.

HM,Jr: I mean, I wouldn't know whether the letter was there or not and incidentally I had nothing to do with that Order.

Yes

HM,Jr: And so, I mean I absolutely - I was just as surprised as anybody else when they read that out.

Well, I

HM,Jr: And, - no - I never see the stuff - that stuff in the budget, so - if you -

I'll go after Dan Bell.

HM,Jr: Would you mind?

Yes, I will.

HM,Jr: Thank you.

All right.

HM,Jr: Thank you

Goodbye.

Monday
February 17, 1936.

HM,Jr: Hello

John

Fahey: Hello, Mr. Secretary, talking.

HM,Jr: Hello, John

F: That's all right, as I thought.

HM,Jr: Yes

F: And we apparently are all right until well up to June or something like that.

HM,Jr: Fine

F: And now if anything develops - but certainly for the next ninety days there's nothing in sight.

HM,Jr: Fine, thank you.

F: And if there's anything up meanwhile - or any change from that program I'll notify you at the earliest possible moment.

HM,Jr: And if there's anything important that you want to talk to me - you can always get me on the phone.

F: Righto - thanks

HM,Jr: Goodbye

F: Goodbye

February 17, 1936

At the group meeting this morning, HM, Jr. said he intended to assign all foreign trade policies to Wayne C. Taylor when he becomes Assistant Secretary. This will include countervailing duties, our foreign policy, gold and silver. He wants him to know everything in the Treasury that touches on foreign relations and intends to use him as general contact man with the State Department.

In this connection, Mr. Bell said he has quite a few informal conferences with the State Department on foreign debts. McReynolds recommended that Mr. Bell continue to do this because it is a matter of history and Mr. Bell knows all about it. The Secretary said he plans to write a letter, after Mr. Taylor reports for duty, which will indicate just which matters will clear through the several Treasury officials. He will give each of the staff members an opportunity to read it and pass upon it.

HM, Jr. also told the group that he and Bell had a nice walk together yesterday. It was decided that Bell and he for the next thirty days would handle the financing and Bell would draw on whoever he wants to help him. Burgess, he said, would come down quite frequently. Then as soon as the Undersecretary is named, Bell will start to turn the financing over to him.

The Secretary said he had talked to Bill Myers about Mr. Tufts, who is with FCA. Myers said he would be sorry to lose him, but if the Treasury wants him he will release him. Tufts was given to Myers by Mr. Coolidge. Bell thinks he is a very good man. HM, Jr. said he would like to get another Lochhead for the bond market; one who could come to him, like Lochhead does on foreign exchange, and tell him the important points in a brief and understanding manner. He said maybe Tufts is that man.

February 17, 1936

HM, Jr. met today with Mr. Phillips and Mr. Fuller of the State Department; Mrs. Moorhead, Professor Chamberlin and Mr. Herbert A. May, all of the Foreign Policy Association, and the following Treasury representatives: Commissioner Anslinger, Mr. Graves and Mr. Wellner. The Foreign Policy Association had expressed a desire to present their objections to the inclusion of the Bureau of Narcotics in the Treasury's coordination of police activities.

Professor Chamberlin explained that the only thing his group was concerned about was the fact that you can't stop the flow of narcotics into this country except by international co-operation, because it is a pool. HM, Jr. replied that the Treasury had studied all suggestions on how to handle our relationship to the foreign Governments and, in his opinion, that had been taken care of. He said the State Department also was satisfied.

He told the group that domestically, the Treasury plans to have a corps of inspectors, all trained pharmacists, who will work with the doctors and druggists and not do any police work, but for the police work we will have several thousand of Treasury police to call upon instead of the present Narcotics force of 250. The last thing in the world he wanted to do, he said, was to let down the bars, but this bill, in his opinion, gives the Treasury the legal sanction to coordinate its police activities, which after a year and a half of experiment without such legislation has shown itself as a step toward better law enforcement.

Mr. May inquired if the practice, in communicating with foreign Governments, or with domestic manufacturers or other licensees, would be to have a letterhead which would have "Treasury Department, Secret Service Division," with "Narcotics Division" under that. Prof. Chamberlin expressed his opinion on this by saying, "I think it would help relationships abroad not to have Secret Service on it." The Secretary said he thought we could decide on the letterhead.

Mrs. Moorhead seemed to think that the international aspect should be free and separate, and have the police end in the Secret Service Division. Mr. Morgenthau said he was absolutely determined that the Treasury police force was going to be one force after having tried it for a year and a half and getting better results than ever before.

Mr. May suggested that the Commissioner of Narcotics be

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made a Deputy or Assistant to the Chief of the Secret Service, but Mrs. Moorhead offered the following objection. She said, "If you make the Commissioner of Narcotics four steps down, he will deal with inferior officers abroad." Mr. Morgenthau stated, "If Mr. Anslinger goes abroad to Geneva and they know he is the only representative of the United States Treasury with the United States Treasury back of him, I think he is going to be received courteously and in a dignified manner, and what is on his pasteboard does not mean anything. It's the man and what he represents that counts."

Prof. Chamberlin then made the following statement: "I have been much interested in recent development of narcotic legislation, both internationally and here, and the importance of having leadership from the Central Government. Right now we are faced with the marihuana situation. We feel there should be an officer in charge of Narcotics, sufficiently close to the Secretary, so he will have in his mind the development of this system of legislation as well as the enforcement side. We would like to see an officer in charge who would be able to carry weight and be able to give a good deal of time to the task of meeting new situations and meeting the laws that come up." Mr. Graves reported that the bill provides the appointment is to be made by the Secretary.

The Secretary suggested to the group that they go to Mr. Graves' office and iron out all difficulties, and then if everything is not entirely satisfactory, he requested them to give him a joint memorandum which he could study tonight.

COPY

February 17, 1936

Memorandum for Mrs. Friedman:

Please transmit the following by cable to Professor Buck:

"Refer your cable February 15. For your information and as possible factor in determining Chen's plan for sailing I will be away from Washington on short vacation from March 20 to April 5. Nicholson should plan to arrive here same time as Chen. Morgenthau".

Archie Lochhead,
Technical Assistant.

AL:ek

February 18, 1936

Miss Perkins' office telephoned that the scheduled meeting of the Cabinet Committee of the Central Statistical Board had been postponed. The message was to the effect that since the Executive Order calls for the Cabinet officers to be members of the Committee, and as one or two of the Cabinet were unable to be present, the first meeting of the Committee would be postponed until such time as all members could be present.

February 18, 1938

When the group met for the 9:30 meeting this morning, the first thing HM, Jr. did was to call Senator Harrison on the 'phone and ask if Wayne Talyer's name would come up today. The Senator said it would and added that he had not heard of any trouble. HM, Jr. then asked if it were possible to get him confirmed the same day. Senator Harrison said, "We could, but usually McNary objects to doing it all in one day." HM, Jr. said he would be glad to call Senator McNary and Senator Harrison wanted to know why HM, Jr. was so anxious to get it through today, whereupon the Secretary told him that in case he was ill or had to be away he needed someone to sign as Acting Secretary and Senator Harrison said they would try to get the confirmation through today.

HM, Jr. asked Haas to give him some background concerning the meeting of the Cabinet Committee of the Central Statistical Board which is to be held in Secretary Perkins' office at 11:30 today. Haas said that Dr. Rice had been over to talk to him. The deficiency bill provided funds to operate the Board. The President sent up Dr. Rice's name for confirmation as Chairman of the Board and, according to Dr. Rice, Miss Perkins has talked to the President and the President has designated her as Chairman of the Cabinet Committee.

Dr. Rice said that when he talked to the President, the President said he would like to have the Chairman of the Board function as Riefler did when he was Chairman and Economic Advisor to the National Emergency Council. Rice told the President that he did not feel he was qualified to do that; he thought there were two jobs and the Central Statistical Board would concern itself mainly with the statistical activities of the Government, but the President said he was also interested in this other thing, so either Miss Perkins or Dr. Rice made the suggestion that Rice do his job as Chairman of the Central Statistical Board and then get someone else to do the other. It appears to be working out, Haas said, that Lubin, the Commissioner of Labor Statistics will be secretary of the Cabinet Committee and, as secretary, will serve in the capacity that Riefler did previously. "But I expect," Haas, reported, "that what the President is interested in is this whole question of unemployment."

HM, Jr. said he was too pressed for time to attend the meeting today and designated Mr. Haas to represent him. He dictated a letter to Miss Perkins to this effect.

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Mr. Oliphant reported about a tax relief bill in favor of the Parker Trust Company. He said Senator Loneragan and Congressman Cochran both had talked to him about it. He also said that the Department of Justice has ruled in favor of the bill and it has come back to us. The Treasury feels it is pretty important that the President veto it, particularly because Congressman Cochran is going to attack it on the floor. HM, Jr. asked if it would flow in the regular way and Oliphant said, yes; through the Budget.

Tuesday
February 18, 1936

Senator Pat
Harrison: Henry?

HM, Jr: Yes

H: We reported that nomination out -

HM, Jr: Fine

H: And I spoke to Jim Couzens -

HM, Jr: Yes

H: But you'd better call McNary. Now, we're meeting this morning at eleven o'clock.

HM, Jr: Fine

H: So you'll probably get him over at the Republican Club Room.

HM, Jr: Well, that'll be a novel experience.

H: Yes

HM, Jr: I'll get him - ask him not to object.

H: Yes

HM, Jr: O. K.

H: All right

HM, Jr: And shall I let you know what he says?

H: No, no, that's all right.

HM, Jr: What?

H: No, that's all right. I'll speak to him too.

HM, Jr: Thank you

H: All right.

HM, Jr: Is Jim Couzens all right?

H: Well, I never can tell about Jim. Jim - he - debated no objection to him this morning in the committee.

HM, Jr: Yes, I see.

H: And I told him that you said because of a dirth
of people down there with you that you needed him to
be sworn in right away.

HM, Jr: Yes

H: Well, you speak to McNary.

HM, Jr: I'll do that right away.

H: All right.

February 18, 1936

Wayne C. Taylor was today confirmed by the Senate, at 3 p.m., as Assistant Secretary of the Treasury.

February 18, 1936

Bell, Haas and Oliphant met with the Secretary today to discuss the tax bill. Helvering joined the group shortly after they met.

Mr. Oliphant reported, in connection with the lawyers' fees bill, in which Tom Corcoran and Brandeis are interested, that we have agreed on the bill that Senator Norris wants to introduce. Corcoran's idea, he said, is to tack it on to the tax bill so it will be sure to go through, but it ought to go to the Judiciary Committee instead of to Ways and Means. The Secretary agreed. Mr. Oliphant added that Stanley Reed had warned him that the President has in mind tacking it on to the tax bill, which would be a terrible mistake.

Haas stated that Bell says the Budget is off \$1,017,000,000 for 1936 and 1937. Collections come in for the fiscal year and those for the fiscal year 1936 are about all in. Using income taxes instead of excise taxes, he said, it means you only have collections for half a year, from January to June, 1937, so in order to get \$1,017,000,000 you would have to have \$2,000,000,000. HM, Jr. quickly made a decision on that. He said, "That can be handled by saying the collections are in sight." Haas replied, "That's the answer!"

HM, Jr. told the group that the President wants us, somehow or other, to set up the bonus thing so it sticks out all by itself. He will treat it separately, in his tax message. Another thing the President is "hell-bent" on is that none of this bonus should appear on the 1936 fiscal books and somebody has to do some "skullduggery" -- Hines or somebody. But the President does not want it to show up until next year. Then we can look at the Budget and say 1936 was less and 1935 was less, and of course 1937 is going to be away up, but that's because of the bonus.

Bell said the only way to do that is to deliver the bonds on July 1. HM, Jr. said that was what the President said, "But how are you going to get away with it?" he asked. Bell replied, "The Treasury will probably be blamed for the 15 days' delay. We can date our checks July 1 and mail them out June 28."

HM, Jr. continued. He said, "This is the suggestion the President has made. He's thinking about it -- let's be dramatic about it and let's take the slowest method possible. We will have special trains, and all the trains will leave on the same day from

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from Washington with the bonds all going out the same day." Mr. Bell interrupted him to say, "Al Hall wants to start delivering the bonds about the 15th of March." HM, Jr. replied, "You and Al and General Hines had better get together. What's the matter with the idea of not delivering any until about the 20th of June?" Bell said, "That won't work, because we have to have the bonds in the Federal Reserve Banks and all the names inscribed and that will take three months, and we have to write the checks."

HM, Jr. said, "I have been fighting this and the President wants it very badly. He does not want any of it to appear on this year's deficit." Bell said the thing to do is to plan on July 1, instead of June 15, and to quietly pass the word around that everything will be moving on July 1. After all, he said, that's only 15 days after Congress said to date the bonds.

"Then this year's deficit will stay down to 3 billion?" asked Mr. Morgenthau. Bell said it might drop back to 3 billion 3. Last year's was 3 billion 575, including the public debt and when Bell said, in reply to the Secretary's question, that he thought this year could be below that, HM, Jr. said, "It will have to be, so we can say that the 5 billion deficit in 1937 is due to just one thing -- the bonus."

Mr. Oliphant wanted to know if the President, at his tax conference tomorrow, will want to talk about taxes to pay the bonus and HM, Jr. said yes; the thing should be complete.

Haas said he had another question to ask. He wanted to know if we should give the President a whole long list, or just take the two taxes. HM, Jr. said, "You have to give him 12 or 15 propositions. Give him all you have, but include a tax for the bonus. If he doesn't want to do the bonus, all right."

The heads of Government lending agencies met with the President at 2:00 P.M. to discuss reductions in bond issuing and in lending authorizations.

Those present were:

Henry Morgenthau, Jr., Secretary of the Treasury,

Lyle T. Alverson, Acting Executive Director, National Emergency Council,

Daniel W. Bell, Director, Bureau of the Budget,

Stewart McDonald, Federal Housing Administrator,

Jesse Jones, Chairman, Reconstruction Finance Corporation,

W.I. Myers, Governor, Farm Credit Administration,

John H. Fahey, Home Owners Loan Corporation,

Horace Russell, General Counsel, Home Owners Loan Corporation,

C.B. Upham, Assistant to the Secretary.

Mr. Bell placed before the President tables which he had prepared on the Reconstruction Finance Corporation, the Farm Credit Administration, the Federal Housing Administration and the Home Owners Loan Corporation. These are attached.

The RFC situation was taken up first. Mr. Bell related, following out the detailed figures in the table, that the overall loaning authority of the RFC, \$3,300,000,000 (later increased to \$3,750,000,000) for general purposes had been reduced by \$2,287,300,000, the amount of their notes outstanding for general purposes. There are undisbursed commitments for general purposes of \$1,062,700,000, leaving a free balance of \$400,000,000.

Mr. Bell indicated possible withdrawals and cancellations of \$285,000,000 of the \$1,062,000,000 of undisbursed commitments.

This added to the \$400 million free balance would make an augmented free balance of \$685 million. Of this Mr. Jones was willing to agree to the cancellation of \$250 million.

Mr. Bell suggested a reduction of \$380 million.

The President asked if a good many of these commitments were not really included in the dead files.

Mr. Bell was of the opinion that they are.

Mr. Jones suggested some possible uses. He listed \$100 million as being held for relief purposes; \$153 million for the Metropolitan water district of California; \$114 million for toll bridges, etc.; \$99 million for cotton loans; \$97 million for corn loans and \$172 million for railroad loans, a total of \$735 million. He thought a substantial sum would be needed for loans to railroads for equipment. He was of the opinion that he would need most of the \$1,062,000,000 of undisbursed commitments.

When the President asked him if he couldn't get along with half of it, he said no, that he would need most of it.

Mr. Bell pointed out that Mr. Jones had agreed to a reduction of \$250 million and indicated the accounts in which cancellations might be effected.

The President raised the question as to whether the possible cancellations might not be transferred or devoted to some other purpose, asking specifically if it might not be better to transfer a part of it to relief as was done last year with a \$500 million item.

Mr. Morgenthau said that he thought the bigger the cancellation

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figure the better impression on the public. He said his preference is for a new appropriation for relief out of the Treasury direct rather than a transfer of some existing authorization.

The President agreed that money expended came out of the Treasury in either event and that the Secretary's point was probably well taken.

The President split the difference between the \$250 million which Mr. Jones was willing to have cancelled out of his undisbursed commitments for general purposes and the \$380 million suggested by Mr. Bell and authorized a cut of \$300 million.

Passing on to the loaning authority of the RFC for specific purposes, the President authorized a cut of \$80 million in the item of FCA loans to joint stock land banks, a cut of \$30 million in the item of loans to insurance companies, a cut of \$250 million in the item of RFC purchases of FDIC obligations (after checking with Mr. Crowley on the legal effect, it being Mr. Bell's opinion that the real position of the FDIC would be unaffected since they can sell their obligations to the Treasury). The total cut in authorizations for general purposes and for specific purposes total \$660 million.

The President was unwilling to cut the authorization for RFC purchases of PWA securities, but it was agreed that the authority to do so should expire on December 31, 1936. He was unwilling to cut the authorization for mortgage loans, both Mr. Jones and Mr. McDonald being of the opinion that this function is essential in the effort to break the jam in the mortgage market.

At the conclusion of the discussion of the situation with

respect to the RFC, Mr. Jones said that he was "happy" about the \$660 million total and added that he would like to have the authority of the corporation to make industrial loans ended.

The next agency to be discussed was the FCA. Mr. Bell explained that the authorized bond issue of the Federal Farm Mortgage Corporation is \$2 billion and that bonds have been issued to an amount of \$1,399,000,000, leaving a figure of \$601 million available for issue. He recommended that nothing be taken away from this figure but referred to the fact that the corporation is authorized to make loans until 1940, and raised for consideration the question as to whether that time might not be cut down.

The President was of the opinion that it would be undesirable and futile to attempt to do that by law at this time.

Mr. Morgenthau agreed, particularly in view of the pendency of the Frazier-Lemke legislation.

Mr. Myers and Mr. Bell developed the fact that \$10 million a month is being used for second mortgage loans mostly, and some first mortgage loans and that this will require some \$480 million between now and 1940. Mr. Myers said that the Federal Farm Mortgage Corporation now owns \$700 million land bank bonds which it cannot dump on the present market. The FCA items which had appeared on the RFC table were mentioned but passed over.

Mr. Myers suggested that the Rural Agricultural Credit Corporations are being liquidated and that his agency would be glad to turn back to the RFC money from that source as fast as it came in. He was of the opinion that no legislation will be needed for this. When it was suggested that FCA was getting off pretty easy, only suffering

a cut of \$60 million, Mr. Myers referred to the fact that he was giving up crop loan balances of some \$70 million.

Mr. Bell countered with the remark that those authorizations had lapsed anyway and the balance could not be used. When Mr. Myers pointed out that they had not asked any increase in borrowing authorization over the original amount fixed, the President compared the agency to a boy who after having had three helpings of pie asked for no more.

The next agency taken up was the FHA. Mr. Bell explained that under Title I of the Federal Housing Act, the Federal Housing Administration insured approved lenders against loss to 20% of the amount of loans made up to a loan limit of \$1 billion, making the maximum insurance liability \$200 million. Estimated loans to April 1, 1936 are \$350 million giving an insurance liability of \$70 million, leaving \$130 million available for cancellation if Title I is not extended.

Mr. McDonald explained that the plan is to extend the life of Title I, cutting the insurance from 20% to 10%. The anticipated loss is from 3% to 5%. He thought it safe to cut the authorization by \$100 million, and that was agreed to. Mr. McDonald expressed a wish to allocate \$50 million of the reserve funds, if legal, for fostering new construction. If that can be done, he said, they can relieve the RFC of responsibility for acting as a national mortgage association and encourage private capital to go in with FHA in the development of national mortgage associations.

Mr. Bell explained that under Section 3 of Title I, the FHA was authorized to loan to financial institutions to the full face

value of loans made by those institutions and insured under Section 2 of the Title. The total potential liability under this section would be \$1 billion, of which it is estimated that \$350 million might be loaned by the financial institutions by April 1, 1936. No loans have been made under Section 3 of Title I and it was thought that the balance of \$650 million available for cancellation might be cancelled and the privilege of making loans to financial institutions (or in effect buying their loan assets) repealed.

Mr. McDonald agreed.

It was further agreed that if FHA got their revolving fund of \$50 million for the encouragement of new construction, the \$78 million item shown on the RFC chart under II (h) might be cancelled.

The next agency taken up was the HOLC.

Mr. Bell explained that the total bond authorization of the HOLC is \$4,750 million. There are outstanding bonds of \$3,032,300,000 leaving an unissued authorization of \$1,717,700,000.

The HOLC estimated that they would need \$149.4 million for exchange of bonds for mortgages to complete loaning operations. This was agreed to. They estimated a necessity for \$273.3 million for purchases of shares in savings and loan associations and home loan bank debentures. This was agreed to. They estimated a need for \$340 million for advances for account of borrowers for taxes and assessments. The President allowed them \$200 million. They estimated a necessity for \$75 million for advances for account of borrowers for insurance. The President allowed them \$50 million. They estimated a necessity for \$60 million for advances for account of borrowers for necessary repairs. The President allowed them \$50

million. They estimated a necessity for \$100 million for taxes and assessments on properties foreclosed. The President allowed them \$100 million. They estimated a necessity for \$120 million for reconditioning houses foreclosed. The President allowed them \$90 million. The total bond authorization allowed for further requirements is \$912.7 million which, deducted from the unissued authorization of \$1,717,700,000 gives a net cut for the HOLC of \$805 million.

In discussing the HOLC situation, Mr. Fahey emphasized that the principal objective of the home loan bank system is to encourage lending by private agencies and to aid them in that endeavor. He said the corporation feels that it is supposed to make this year's operation as simple as possible and to monkey with the law as little as possible. Moreover, the urban mortgage situation is far from satisfactory. In normal times there are \$4 billion to \$5 billion in such mortgages each year, about half new money and about half refinancing. Last year the total refinancing was \$900 million in all classes of institutions. Out of that total the Federal agencies lent more than all of the insurance companies.

The HOLC alone in 1935 made \$800 million of urban mortgages. Some resource is needed to fill the gap and make up the difference. \$2 billion of urban mortgages mature each year. Asked by Mr. Morgenthau if they received satisfactory audit reports on Federal Savings & Loan Associations, Mr. Fahey replied that they are supervising these institutions right along getting good reports and that the associations are making good mortgages. He said that other agencies, referring particularly to Massachusetts Savings Banks, are

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lending 35% to 40% of present market values and alleging that there is no demand and no good mortgages available. Borrowers, he said, are unwilling to pay 6% for loans on a 50% valuation. Massachusetts savings banks are renewing mortgages for 12 months only. It is a problem to break the mortgage market. Many building workers are on relief. It is an unemployment problem. The Government must either spend money to encourage housing or spend money to feed unemployed building workers.

The President interposed to say that Mr. Fahey was "dead right" on that. The President then raised the question of a possible new housing bill and asked for advice as to whether the cost on any such measure should take the form of a new appropriation or be handled through the transfer of some existing authorization.

Mr. Fahey thought it ought to come out of an existing authorization if some self supporting scheme can be worked out.

Mr. Morgenthau referred to the fact that there is as yet no plan of consolidation of Federal agencies in the housing field.

The President agreed, but continued with the statement that on the assumption the Federal Government goes in for building cheaper homes should it be done by a new appropriation or a transfer of existing authorizations.

Mr. Morgenthau thought it might look better to transfer the existing authorization. It was thought that some attention might be given to any reaction to Senator Wagner's housing proposals.

The President thought that it would be well to postpone action on cutting authorizations of the FHA and the HOLC until there was

a decision on new operations.

Mr. Morgenthau interposed to ask if that would keep us "from taking the \$660 million which Jesse Jones has offered us" and the President replied that that could be cut at once.

The President then said that he thought Mr. Fahey could get along with \$805 million less authorization but that he would wait for the Wagner bill before actually cutting it.

The total cut agreed on in outstanding authorizations then were as follows:

- Reconstruction Finance Corporation....\$660,000,000
- Federal Housing Administration.....\$750,000,000
- Home Owners Loan Corporation.....\$805,000,000

the latter being deferred until a decision has been reached on low cost houses.

The President referred to the work of the Central Housing Committee and said that it was all a little confusing to treat housing as a single item. There should be separate compartments for slum clearance and for suburban housing and for rural farm houses.

Mr. Morgenthau reiterated that the Delano report, which he said he had not seen, made no comment, as he understood, about which housing agencies perform which functions and which ceased to function.

Mr. McDonald said that he and Mr. Eccles, Mr. Fahey and Mr. Grimm had thrashed out a program. Mr. Fahey interposed to say that he thought Mr. Morgenthau's suggestion for a definite agreement on consolidation of housing agencies a good one. He asked for one coherent, sensible, logical plan. He thought the agency heads

should bring their agreements and disagreements to the President. He said that he was not so optimistic of harmonious results as Mr. McDonald seems to be.

The President said that so far as slum clearance is concerned, the Government couldn't start more than \$200 million worth in the first year and that this would mean a small expenditure.

Mr. Morgenthau suggested that the President give to Mr. Alverson the authority to get the housing agency heads and the Delano committee together on a housing program.

Mr. Fahey commented that there is already a Delano committee report but that there are some disagreements.

Mr. Alverson commented that he thought the chief difficulty was the difference of opinion among the agency heads.

Mr. Fahey said that before there could be very much in the way of decision on other things, there must be a decision on how far the Government is going to go in aiding slum clearance.

Mr. Myers commented that he thought the difference in view point of the agency heads is on what the set up should be.

Mr. McDonald was of the opinion that if the point on how far the Government could go could be settled all other plans could move forward.

Mr. Russell referred to the idleness in the building trade and the necessity to spend money for relief or in aid of housing.

Mr. McDonald spoke of a survey which indicated that 25,000 homes would be built with private funds in the early Spring.

Mr. Alverson said that the most important aspect of the whole question was an early definition of Federal policy.

The President said that he realized that difficulty and added that he had neither the time nor the knowledge to go into the whole thing. He said he would like to think of it in terms of Poughkeepsie, New York. He referred to the possibility of saying to a citizen of Poughkeepsie that if he would build a house which, including a quarter or half acre of land would cost not more than \$4,000 and if he had 10% of that and if the bank would lend him some on a first mortgage at not to exceed 5% then the Government would lend the rest on a second mortgage.

Mr. Russell and Mr. Myers agreed that that is exactly what the FCA is doing through its commissioners loans. Mr. Myers added that the first mortgage would have to be in a savings bank or a building and loan association or some friendly agency which would not want to bail out on the first default. Otherwise the maker of the first mortgage would have to be watched to see that he did not foreclose and make the second mortgagee take the whole thing over.

The President thought there might be some arrangement whereby the home owner would pay \$20 a month to a trustee who would divide it between the first and second mortgages.

Mr. Russell suggested that the 3500 members of the Home Loan Bank System might serve as approved mortgagees for that purpose.

The President said he would like to see some simple plan like that which could be explained over the air and in the papers to prospective home owners.

Mr. Fahey said he was confident that the housing agency heads could evolve something which would hold water for presentation to the

President.

Mr. Jones voiced the opinion that there are very few people who are interested in homes costing \$4,000 and less. He thought it should be raised to at least \$5,000.

Mr. Morgenthau suggested that the Bureau of the Budget draw up whatever legislation is needed to cancel unused outstanding authorizations as agreed upon today.

The President agreed that that should be done.

The President directed that the heads of the housing agencies get together and prepare for presentation to him a complete housing program for the Federal Government.

In order that they may give consideration and attention to the before Cabinet consideration in view of requests detailed statement on the nature of matters to be discussed. Also has checked his master plan working date in March 25 to arrive San Francisco April 5. This is in view of your message of February 17.

C O P Y

February 18, 1936

From: Spagent, Shanghai, China.
To: The Secretary of the Treasury.

Message from Professor Buck:

In order that Kung may give consideration and instructions before Chinese representative leaves he requests detailed statement on the nature of matters to be discussed. Chen has changed his contemplated sailing date to March 24 to arrive San Francisco April 8. This is in view of your message of February 17.

C O P Y

February 19, 1936.

From: Spagent, Shanghai, China.

To: The Secretary of the Treasury.

Message from Professor Buck: Japan now understands that England, United States, and Russia are opposed to her North China policy and is, therefore, considering dealing first with Russia and considers giving less attention to North China for the present.

Kung again expresses appreciation for your support of China's monetary system and again states that pronouncements by Pittman and London, together with Chinese active preparations for armed resistance, are important factors in curbing Japan in North China and has resulted in Doihara apologizing denial of intention of closing door and of retaining customs and autonomy of North China.

Meeting held at the White House, Wednesday, February 19, 1936, 2:45 P.M.

Subject: Seed loan

Present: The President
Secretary Morgenthau
Wayne C. Taylor
Governor Myers - Farm Credit
S. M. Garwood - Farm Credit
Daniel Bell
Herman Oliphant
~~Commissioner Helvering~~
George C. Haas

Governor Myers suggested to the President that if the loan limit to individual farmers be reduced from \$500 to \$200, \$30 millions would be sufficient rather than \$50 millions. He indicated that he told Mr. Bell in the morning that \$10 millions could be obtained from certain funds in the Farm Credit Administration. He also stated that after further very careful examination since that time, that he felt \$15 millions or probably \$20 millions could be secured, as a result of the liquidation of the Regional Agricultural Credit Corporations. Governor Myers explained further, that this was made possible by the transference of the RACC paper to the Federal Intermediate Credit Banks.

Secretary Morgenthau asked the President if he would like to read a veto message on the seed loan bill, which Mr. Bell had prepared. The President said that he would prefer to discuss the issues involved first. After some discussion the President said: "well, it resolves itself into two alternatives; one is to veto the bill and suggest in the veto message that I would sign the measure if additional revenue was provided, sign the bill stating that I have assurance that funds necessary to finance the measure will be

- 2 -

made available."

The President then asked Mr. Bell and Governor Myers to discuss the matter with Senator Harrison and Senator Robinson. The President indicated that a veto message would create a great many difficulties which he would not like to face. Secretary Morgenthau stated that if he did not veto the bill, or that if he signed it without having funds available to meet this expenditure outside the budget, his action would be inconsistent with his previous statements of policy with regard to Federal finance.

Meeting held at the White House, Wednesday, February 19, 1936, 2:00 P.M.

Subject: Tax Message

Present: The President
Secretary Morgenthau
Wayne C. Taylor
Daniel W. Bell
Herman Oliphant
Commissioner Helvering
George C. Haas

Secretary Morgenthau handed the President a draft of a proposed tax message. The President read the draft aloud. After reading the section regarding the "Withheld Earnings Tax", he asked if in our consideration of this tax, provision was made for preventing a possible loop-hole which he outlined as follows: A corporation whose stock is selling at 50 pays the usual \$1,000 dividend to a man owning 1000 shares and also gives him the right to subscribe for 100 shares, we will say, at \$10 a share. Provision would have to be made: (a) that the corporation could not in this fashion avoid the new tax on it, and (b) that the stockholder in this fashion could not avoid paying his personal income tax on the entire de facto distribution of \$5,000, namely \$4,000 velvet on his 100 shares and \$1,000 on his cash dividend; and by this is meant his paying in the year in question and not at some later time when he sold the 100 shares of stock.

Considerable time was spent discussing the President's inquiry. Mr. Haas pointed out that the corporation would be required to make cash distribution to avoid paying the 25 percent rate and in that case the Treasury would receive the revenue through the payment of personal income

- 2 -

taxes which the dividend recipient would be obliged to pay on the dividend disbursement. The President then explained that in addition to this withheld earning he was interested in taxing what is the equivalent to the value of the "rights" which may be distributed to stockholders. Mr. Taylor stated that the issuance of additional stock to the stockholders would reduce the value of the stock. Secretary Morgenthau suggested that this matter be given further study and analysis and that we report back the results later to the President.

Mr. Taylor asked for an explanation of the \$3 billions estimate which appears on page 5. A brief explanation was given by Mr. Haas. Mr. Oliphant suggested that Mr. Haas might explain the 25 percent rate. Mr. Haas explained that if income taxes were paid on the undistributed earnings, the Treasury would receive about 25 percent, therefore, in order to equalize the loss to the Treasury, if earnings were not distributed a 25 percent rate would be required.

The President asked what items were included in the suggested Processing Tax Bill. Mr. Haas submitted a statement listing the items which are included under the proposed new bill and under the old bill and also showing a comparison of the rates in the new and old bills. A copy of the statement which was given to the President is attached. The President asked for reasons why certain items were selected and the basis for the rates on several of the items. Mr. Haas explained that the items, as well as the rates, were selected by the Department of Agriculture. The President, noticing the reduction in hog rates, said it looked to him like an Iowa schedule, and suggested that the list of items be broadened to include such items as rayon, wool goods, et cetera. He also indicated that with the broad list it would be possible to lower the rates on the individual items.

- 3 -

In the tax message on page 8, in discussing the proposal to equalize the benefits of personal exemptions, the message states that "the law so provided prior to the revenue act of 1934". The President asked what was the reason for making this change at that time. Mr. Oliphant replied that he had forgotten, but would find out.

The Secretary told the President he had a splendid suggestion, which he had received from Mr. Bell--that was, to make up the revenue deficiency in three years, which Secretary Morgenthau indicated in effect was paying your taxes on the installment plan. This appealed to the President and he said that the idea had also occurred to him. Expanding this idea further, the President said that we should have a permanent increase in revenue from taxes of \$600 millions per year to make up for the deficiency which has arisen in the budget. He carried this illustration further by taking the \$500 millions required for Agricultural Adjustment Administration-- from that he subtracted \$150 millions which he expects to be raised through the windfall tax and obtained a remainder of \$350 millions-- a deficiency which could be spread over three years by increasing the tax revenue of \$118 millions per year and terminating this increase at the end of the third year. He further pointed out that in terms of rates this would mean about an increase of one-fifth for three years, as \$118 millions is about one-fifth of \$600 millions. Or, he said, another method of handling this would be not to increase rates, but to substitute another tax which would yield about \$118 millions and indicate that it would be in effect for only three years.

The President raised the question as to when he should talk to Congressmen and Senators with regard to the proposed tax bill. Secretary Morgenthau suggested that it would be preferable to postpone this discussion until shortly before he submitted his message. The President then set Thursday evening of

next week as the time for this meeting.

The President asked if we had worked out some basis for taxing existing corporation surpluses. Mr. Haas said that he felt they should be taxed, but that he had been unable to devise an effective procedure for handling it. The President said: "couldn't an arbitrary basis be taken so as to permit corporations, for example, to have only 25 percent of their valuation of the plant and equipment in surplus?" Mr. Oliphant replied that he thought this might be done. Mr. Helvering stated that if the President actually intended to make a recommendation along those lines, that he would like to have an opportunity to point out the great administrative difficulties which would be involved.

BR

Comparison of Processing Tax Rates -
Agricultural Adjustment Act v. Proposed Substitute

Commodity	Unit	Old rate	Proposed new rate
Wheat	bu.	30 ¢	20 ¢
Corn	bu.	5 ¢	15 ¢
Cotton	lb.	4.2 ¢	2.8 ¢
Hogs	cwt.	\$2.25	75 ¢
Sugar	lb.	0.5 ¢	0.5 ¢
Rice	lb.	1 ¢	0.75 ¢
Peanuts			
Shelled	lb.	1.5 ¢	1.2 ¢
Cleaned	lb.	1.05 ¢	1.2 ¢
Rye	bu.	3.0 ¢	13.2 ¢
Paper and jute	lb.	Various	2/3 of previous <u>1/</u>
Tobacco	-	Various	Various <u>2/</u>
Barley	bu.	-	15 ¢
Oats	bu.	-	7½ ¢
Starch	100 lb.	-	41 ¢
Cattle and calves	cwt.	-	20 ¢
Sheep and lambs	cwt.	-	10 ¢

Treasury Department, Division of Research and Statistics.

February 19, 1936

- 1/ Substitute tax on paper and jute products does not include in taxable base: Paper towels, gummed paper tape, or jute bags.
- 2/ Old taxes were measured by amount of tobacco processed, new taxes by amount of product produced.

February 19, 1936

NATIONAL FOR TAX MESSAGE

In my last budget message, I directed attention to my statement in the budget summation of September 30, 1935, that, if attacks on processing taxes were sustained, the country would have to face the problem of financing existing contracts for benefit payments out of some form of new taxes. I said also that additional charges upon the Treasury, for which provision was not already made in the budget, should be accompanied by additional taxes to cover them. In pursuance of this fixed budget policy, I am impelled by events which have taken place since those statements were made to recommend legislation to provide additional Federal revenues.

I recommend that, in framing tax legislation the Congress consider first, imposing suitable excise taxes on the processing of farm products; second, taking for public use a substantial part of any unjust enrichment resulting from the return or non-payment of Federal excises; and, third, making certain changes in our general tax laws which will produce substantial revenues and, at the same time, greatly improve our general tax structure.

Processing Taxes

As one source of revenue to meet Treasury requirements, I recommend an excise tax on the processing of certain agricultural products. As matters now stand, the total annual amount obtained from this tax should be substantially less than that from similar levies in 1934 and 1935; and, in order further to reduce the tax affecting particular commodities, the number of commodities so taxed should be

\$380,000,000
assignment

increased. I recommend the broadening of this source of such revenue, in the interest of relatively low rates per unit and of maintaining present competitive relationships among the producers, processors and consumers of the various products.

Our experience with taxes derived from the processing of agricultural products indicates that the tax was borne almost wholly by the consumers in the case of some commodities, such as cotton and wheat, and that in others, such as hogs, the tax was in effect deducted from the market price paid to producers. Lower rates of tax on the processing of more commodities will reduce the contribution to Federal revenues made by those whose budgets were chiefly affected by commodities previously taxed and also by the producers of those products.

There is available to the Congress the experience of the Treasury Department and the Department of Agriculture with the previous tax, which should be helpful in fixing the lower rates, in enlarging the group of commodities the processing of which is to be taxed, and in making such adjustments and special provisions as fairness may require.

Windfall Income

\$ 100,000,000[?]

Processing taxes, impounded by the lower courts and amounting to approximately \$100,000,000, have been ordered returned to the processors. In addition there are other unpaid processing taxes, which can not now be collected, approximating \$40,000,000. The

burden of these two classes of uncollected taxes, equally with that of the processing taxes actually paid, was, in the main, passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21(d) of the Agricultural Adjustment Act that, in the event of the invalidation of the processing taxes, only those processors who had borne the burden of these taxes should be permitted to receive refunds. Manifestly, the return of the impounded funds and the failure to pay taxes that were passed on result in unjust enrichment, contrary to the spirit of that enactment. In all fairness, neither the processors nor their distributors should be in a better position than had this tax liability never entered into their calculations.

Unfortunately it is not possible to return to each individual consumer the tax which was passed on to him in the prices he paid, or return to each individual producer the amount which was taken out of the prices he received; but by suitable legislation much of this can and should be added to the Federal revenues for the benefit of the country as a whole.

I, therefore, recommend that the Congress enact appropriate legislation to tax this windfall income. This legislation might well be modeled after the war profits tax of February 24, 1919, which

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taxed at very high rates net income received from Government contracts executed during the War. The considerations of what is fair and in the public interest, which prompted the Congress to tax heavily the large war profits resulting from Government contracts, equally justify the imposition of the tax now proposed.

I recommend that, for similar reasons, the Congress consider also the general application of this principle to the unjust enrichment resulting from the return or non-payment of any Federal excise which has been passed on by the taxpayer.

Improving the Tax Structure

The present necessity to provide additional revenues should be used further to improve the general tax structure by enactments to reduce tax avoidance and otherwise to equalize the tax burden. I recommend certain changes in existing tax laws which will accomplish this two-fold purpose. Some of the changes recommended can be passed on in the form of higher prices to consumers or lower wages to workers. None reduces corporate profits. Each of them is designed either to make some of our existing laws more effective or to remedy some weakness or unfairness in them. Finally, the suggestions that I shall outline possess the fundamental merit of reducing the relative burden of Federal taxes on consumption, the area of taxation to which States and local governments have been increasingly turning.

Withheld Earnings Tax. Ever since the adoption of a Federal surtax on personal incomes, the effective and uniform application of surtax rates to personal incomes has been hampered and measurably defeated by the use of the corporate form of business organization. The Congress has struggled with this problem in a series of enactments beginning in 1913 and extending to Section 102 of the Revenue Act of 1934. But these measures have been only partially effective. During 1936 some \$3,000,000,000 of corporate profits, which, as earned, should be added to the incomes of stockholders and there taxed as other personal income, will, as matters now stand, be withheld from stockholders by those in control of corporations, thus depriving the Government of \$800,000,000 of revenues which should flow to it. Limits must be set to the power of the management of such corporations so greatly to influence the sources of revenue available to the Federal Government.

Such withholding of earnings from stockholders is defeating a uniform application of the tax on personal incomes. In practical operation, it is depriving stockholders of an opportunity to decide whether they wish their funds to remain in these corporations or to be put to other uses, and it is augmenting corporate surpluses already of a magnitude and variety challenging public attention.

During the past few decades, we have witnessed the rapid growth of corporations and a corresponding decline of partnership and individual

H 750,000,000

business enterprises. In this struggle of small business to survive, the Government has not been neutral because this trend has been materially accelerated by the operation of our tax laws. These laws discriminate against business men who conduct their enterprises as individuals in favor of those who do so under the corporate form. In the latter case, profits are taxable only at the relative low corporate rates, whereas, in the former case, profits are subject to normal taxes and to surtaxes also. It is true that corporate earnings when distributed are subject to the surtax in the hands of shareholders. But the fact is that a very substantial part of such earnings is, as I have indicated, now withheld from distribution and is either never subject to the surtax or such tax liability is long postponed.

Withholding corporate earnings from stockholders has made possible the expansion of corporate enterprises through the automatic reinvestment of earnings. This has fostered the rapid displacement of individual proprietors and small businesses by corporations of undue size. Normal corporate development is, of course, desirable. Healthy corporate life requires growth and constant adaptation to the changing industrial and social scene. Nevertheless, in a democratic society, real control over the investment policies of corporations should rest with the shareholder-owners. Fiscal necessity, no less than

desirable public policy, requires equal taxation of all corporate profits, whether reinvested in the business or not.

I therefore recommend a tax at the rate of 25% on that portion of the net income of every corporation which is not distributed to the stockholders.

Such a tax will not retard but stimulate enterprise and profits. Corporations distributing their profits will pay no added tax. Through offering subscription privileges to stockholders, earnings can be reinvested in an expanding business if their rightful owners thus consent; and such earnings will be invested in those enterprises which pass the scrutiny of an informed investing public.

Unearned Income Tax. I recommend the imposition of a special surtax of 10% on unearned income received by individuals, retaining, however, the present provision of the law that the first \$5,000 of each individual's income be regarded as earned in any case. Our present income tax law makes only a small distinction between income that is earned currently by personal effort and income received by way of dividends, interest, rents, etc. The effect of this change would be to supplement this relatively small difference in our present treatment of unearned as against earned income.

Equalizing the Exemption from Estate Taxes. The effect of the present specific exemption of \$40,000 allowed in computing estate taxes is to give much greater relief to the larger estates

472,000,000

53,000,000

which are subject to higher rates than to smaller estates. I recommend for your consideration, therefore, that this exemption be graduated with a view to making it more nearly equal in value for all sizes of estates. It might well be reduced until estates of \$80,000 are reached and thereafter eliminated.

Equalizing the Benefits of Personal Exemptions. I recom- ^{\$104,000,000}
mend that deductions for personal exemptions and credits for dependents under our income tax law be restricted to normal tax liability and not allowed for surtax purposes. The law so provided prior to the Revenue Act of 1934. When these exemptions and credits are allowed for the purpose of determining liability for surtaxes, their effect is to grant such greater relief to recipients of large incomes subject to the higher surtax rates than to those of small incomes. When the exemptions and credits are allowable only in connection with normal tax liability, their value is the same for all taxpayers.

Normal Tax on Dividends. Dividends received by individuals ^{\$100,000,000}
are now wholly exempt from the four per cent normal tax applicable to wages, salaries, interest, and other items of individual incomes. The original justification for this exemption was apparently that stockholders in effect pay the normal tax on dividends through the corporation income tax, but our tax law has long imposed a higher rate on corporations than the normal rate on individuals, presumably on the theory that the corporation income tax is essentially a tax on the privilege of doing business in the corporate form. The present need for additional revenue seems to justify the extension of this principle by subjecting dividends to the normal tax.

With the foregoing changes in our tax laws, we shall have a tax structure which will provide the revenues that sound public financing and dependable budgetary practices require, and a tax structure fairer because more widely and more uniformly effective, and sounder because more in keeping with the present and future well-being of the nation.

February 19, 1936.

My dear Mr. Secretary:

It has recently come to my attention that Mexican officials charged with the operation of the Guardacosta of that country, have expressed willingness to cooperate with our Coast Guard in the enforcement of revenue laws. In view of this, it is proposed to send Admiral Hamlet, Comandant of the U. S. Coast Guard, in the cutter Saranac, to Vera Cruz, headquarters of the First Mexican Naval Zone, about March 1, 1936, to consult with Mexican authorities regarding the working out of a practical method of cooperation. It will be appreciated if you will effect the necessary formal arrangements with regard to this visit, including invitations to the appropriate officials at Mexico City having to do with administration of Guardacosta, to be present to confer with the Admiral should they desire to do so. One official who has shown particular interest in the arrangements is General J. Salvador S. Sanchez. If agreeable to the Mexican authorities Admiral Hamlet contemplates visiting several other Mexican ports in the areas frequented by smuggling craft, namely, Gontoy, Cozumel and Mujeres Island, site of the new Mexican marine base.

The above mentioned arrangement will be similar to the one already in effect with the Canadian Preventive Service which has been working satisfactorily now for over a year. It is felt that the coordination of this sort in our Southern waters will be very valuable in our efforts to protect the revenue.

Sincerely,

(Signed) Henry Morgenthau, Jr.

The Honorable,

The Secretary of State.

BMT/pk

"BMT" "G" "McR"

February 19, 1936.

A group met in the office of the Secretary of the Treasury at 12:15 P.M. to discuss the tax program.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
Herman Oliphant, General Counsel, Treasury Department,
Guy T. Helvering, Commissioner of Internal Revenue,
Wayne C. Taylor, Assistant Secretary of the Treasury,
Geo. C. Haas, Bureau of Research & Statistics,
Herbert E. Gaston, Assistant to the Secretary,
C.B. Upham, Assistant to the Secretary.

Mr. Oliphant submitted a draft of material for a tax message which the Secretary read aloud. It is attached.

Mr. Morgenthau said that as a first draft he thought it was swell. The President will have a week to consider it and will probably take it up the first thing after his return from Hyde Park about next Wednesday. At that time he will probably have Harrison and Doughton and others down from the Hill for a discussion.

Mr. Oliphant reported that Mr. Doughton had interrogated Mr. Hester last night on tax activities at this end of the Avenue and that he had authorized Mr. Hester to tell Mr. Doughton that if the President does propose new taxes at this session of Congress there will nevertheless be no tax bill prepared in and by the Treasury, but that the Treasury people will be fully available to the Ways and Means Committee and to the Finance Committee for any assistance they can render.

Mr. Helvering was of the opinion that proposed taxes on undistributed corporate earnings are justified and said that a number of

important taxpayers who have conferred with him are entirely willing to pay heavy taxes for the purpose of balancing the budget.

Deverport Harrison spoke to the Secretary and mentioned Edward M. Hart as a new prospect to fill the Under-secretary vacancy.

February 19, 1936

Governor Harrison spoke to the Secretary and mentioned Edward H. Hart as a new prospect to fill the Under-secretary vacancy.

Q: From there he went to the State Department where he was an attorney in the Bureau of Consular Affairs for three years under Novins. He was a close friend of Hubia Clark. Then he went to the Executive Commerce Commission for a year or two of the Coolidge days. And when he got through there he was paid in 1914.

Q: Yes.

Q: Is was - he became a law partner of William Clark.

Q: Oh, yes.

Q: Was he now -

Q: Assistant Secretary.

Q: Assistant Secretary. He was with him for three years.

Q: Oh yes.

Q: And made a great reputation there - William Novins and Clark did up for you. And then he went to war and fought all through the war.

Q: Yes.

Q: And when he came back he went to the Secretary for just a year with Laffingwell.

Q: Oh yes.

Q: Is one of his lawyers - William Laffingwell.

Q: Yes.

Q: That was until - from July 1931 to March 1932.

Q: Right.

Q: Then he came to the reserve. He was with the Secretary and he was her General Counsel. He stayed in the office half.

Tuesday
February 18, 1936

HM, Jr: Please do

George Harrison: He's a graduate of Yale in 1907 and the Columbia Law School in 1910 where he made the Law Review.

HM, Jr: Oh yes

H: From there he went to the State Department where he was an attorney in the Bureau of Insular Affairs for three years under Rubin Clark - and was a great friend of Rubin Clark. Then he went to the Interstate Commerce Commission for a year as one of their attorneys. And when he got through that - just one year - 1914 -

HM, Jr: Yes

H: He was - he became a law partner of Walton Moore.

HM, Jr: Oh, yes

H: Who is now -

HM, Jr: Assistant Secretary

H: Assistant Secretary. He was with him for three years.

HM, Jr: Oh yes

H: And made a great reputation there - Walton Moore can check him up for you. And then he went to War and fought all through the War.

HM, Jr: Yes

H: And when he came back he went to the Treasury for just a year with Leffingwell.

HM, Jr: Oh yes

H: As one of his lawyers - under Leffingwell.

HM, Jr: Yes

H: That was until - from July 1919 to March 1920.

HM, Jr: Right

H: Then he came to the Reserve Bank here from the Treasury and he was our General Counsel for about a year and a half.

HM, Jr: Oh yes

H: So he's had a little Treasury experience and a little Reserve Bank experience.

HM, Jr: Right

H: Then he became a Vice President of the United States Rubber Company for nine years.

HM, Jr: Oh, my -

H: Rather a Vice President sort of a House Counsel -

HM, Jr: He's studying the rubber dollar?

H: (Laughter) Well, I thought that might appeal to you.

HM, Jr: Right

H: And then his wife was sick and complaining and all that and he had to quit that and went to Washington to practice law there where he did a little sporadic practice of law. His wife's not well - she's gone to California and he's looking around now for a real job.

HM, Jr: I see.

H: I am going up to see him in a few minutes about something else that he's asked me to talk to him about.

HM, Jr: Oh yes

H: Yes, I think that fellow -

HM, Jr: You haven't mentioned his name yet, you know.

H: Oh, haven't I?

HM, Jr: No

H: Ed Hart - Edward H. Hart, H-a-r-t

HM, Jr: Edward H. Hart - H-a-r-t

H: And married the daughter of Frank Noyes of the Associated Press.

HM, Jr: Oh, yes

H: He's got a good background, a brilliant fellow, got a brilliant mind - Irishman -

HM,Jr: Yes

H: Very level headed -

HM,Jr: Yes

H: And delightful personality -

HM,Jr: Yes

H: And a real gentleman and a fellow that you can get along with well I think and would like personally -

HM,Jr: Yes

H: Which is a part - a very important part of a job like that.

HM,Jr: Very

H: And I think he's well worth your while looking into.

HM,Jr: Well, I'd be glad to meet him. If you can fix it up somehow I'd be very glad to meet him.

H: Would you really?

HM,Jr: Yes, I would.

H: Well I am going to see him - I'm going uptown now to see him because he's got something he wanted to ask me about. I haven't said a word to him about this.

HM,Jr: All right.

H: But if you'll let me tell him -

HM,Jr: Sure

H: - send him down here I'd like to do it.

HM,Jr: Be delighted

H: Tomorrow or the next day?

HM,Jr: Yes

H: All right. Well, I'll see him and then call you in the morning.

HM, Jr: Thank you very much.

H: I may send him down on the midnight train.

HM, Jr: That's all right.

H: All right.

HM, Jr: Thank you.

H: Goodbye.

The thing that is most important... The President had... sign the bill and say that we will... the new Relief bill passed.

The Secretary told Bell that he would... a clean-cut veto message... funds called for by the bill are not... in his veto message he will indicate... from Bill Myers and \$5,000,000 from... ready allocated and which would... budget, in case the Congress wants to pass...

HM, Jr. suggested taking the \$50,000,000 out of the... Fund of FUA, but Bell advised him against... the suggestion of taking \$50,000,000 out of... than Credit or Bank for Cooperatives and... take the \$5,000,000 that he needs for seed... of the 4 billion \$ already allocated to... that since this money for seed loan goes... no reason why the funds should not be... already made to FUA.

The Secretary told Bell... that he never... see the President in such a... as the last people of... be simply looked up at... what do you advise my doing?"

HM, Jr. told Bell to prepare a... ready by two o'clock... warning as is to definitely... but want him to talk to... this kept absolutely...

February 19, 1936

HM, Jr. saw the President this morning. When he returned to his office he called in Bell and told him that the President cannot do anything on the tax bill until the farm bill passes; that the President most likely will stay at Hyde Park until Wednesday night and that the farm bill probably will not pass until Friday.

The thing that is most important for the moment is the seed loan bill. The President had the idea that he would sign the bill and say that we will reimburse ourselves when the new relief bill passes. HM, Jr. talked him out of this.

The Secretary told Bell that he wants, and the President will take, a clean-out veto message on the grounds that the funds called for by the bill are not included in the Budget. In the veto message he will indicate where we can get \$30,000,000 from Bill Myers and \$5,000,000 from Rex Tugwell, from funds already allocated and which would, therefore, not affect the Budget, in case the Congress wants to pass another seed loan bill.

HM, Jr. suggested taking the \$40,000,000 out of the Revolving Fund of FCA, but Bell advised him against this. Then HM, Jr. made the suggestion of taking \$30,000,000 out of either Production Credit or Bank for Cooperatives and that Rex Tugwell could take the \$5,000,000 that he needs for seed loan out of that part of the 4 billion \$ already allocated to him. HM, Jr. also said that since this money for seed loan goes to Bill Myers, he saw no reason why the funds should not be taken from allocations already made to FCA.

The Secretary told Bell, most confidentially, that he never saw the President in such a frame of mind. He seemed so tired, and in the last couple of days when several things have come up "he simply looked up at me and said, in a weary voice, 'Henry, what do you advise my doing?'"

HM, Jr. told Bell to prepare a veto message and have it ready by two o'clock. When Bell talks to Bill Myers this morning he is to definitely tell Myers that the President does not want him to talk to Marvin Jones or to anybody. He wants this kept absolutely confidential.

TREASURY DEPARTMENT

OFFICE OF COMMUNICATIONS

February 19, 1936

HM, Jr. called McIntyre and told him that Bell is working on the veto message for the Seed Loan Bill. He also told him he had been in contact with Bill Myers and that Myers feels it is penalizing a conservative organization, such as either the Bank for Cooperatives or the Production Credit, that are trying to build up their organization, by taking the money away from them. He suggested that before the President sends the message to the Hill that Bill Myers wants to talk to the President. It was arranged that Bill Myers would see the President at 2:30.

It has been decided to go ahead with the plan at once.

TREASURY DEPARTMENT

Rec'd
4:25
P.M.

45

INTER OFFICE COMMUNICATION

How has it any
men
Key to
L-7

Miss Klotz

DATE: February 20, 1936

TO The Secretary

FROM Mr. E. W. Sloan

- went to see
Sloan as soon as I get
back

The Post Office Department is checking up on the number of
branches in these three states and it may prove desirable to have
our sales organization contact certain of these branches also. When
the number and locations of these offices is obtained, allotments
can be made to the various men.

telephone him to go ahead
with this plan at once. MWS

UNITED STATES SAVINGS BONDS
Outline of Plan to Contact Post Offices.

It is believed that one man can cover efficiently an average of 3 to 5 offices per day, or approximately 100 offices per month.

Test Campaign

NEW JERSEY

1st Class Offices	49
2nd " "	95
3rd " "	<u>201</u>
Total	345

3 men for New Jersey can cover all offices once each month.

MARYLAND

1st Class Offices	7
2nd " "	29
3rd " "	<u>102</u>
Total	138

DELAWARE

1st Class Offices	2
2nd " "	12
3rd " "	<u>19</u>
Total	33

2 men for Maryland and Delaware can cover all offices once each month.

Cost

Cost Per Man Per Day:

Salary (per day)	\$10.00
Travel Allowance (per day)	5.00
Automobile allowance based on 60 miles per day at \$.05 per mile	<u>3.00</u>
Total Per Man Per Day	\$18.00

Cost Per Man Per Month:

Salary (30 days)	\$300.00
Travel Allowance (30 days)	150.00
Automobile cost (22 days)	<u>66.00</u>
Total Per Man Per Month	\$516.00

PROGRAM

1. Employ 5 men.
2. Hold them here for instructions for two weeks.
3. Sloan and Bryan to go out with each man for a day or two to get them started.
4. Each man must mail us a report with post office cancellation on envelope from each town worked.
5. Each post office in test area will report total weekly sales to Superintendent of Postal Savings Department, Post Office Department.
6. All 5 men to report in Washington every Saturday morning for review of work and to clear up problems.
7. Booklets to be available for these areas at rate of 50 copies per carrier.

-2-

Cost of Test for 90 Days:

5 men @ \$516.00 - \$2,580.00 per month

3 months - \$7,740.00

To Cover Entire Country - Calling on All First, Second and ThirdClass Post Offices

Total		
	1st Class Offices	1,007
	2nd " "	3,154
	3rd " "	<u>9,569</u>
	Total	13,730 Offices

In some of the more sparsely settled territory, it would not be advisable to call as often as once each month because of excessive transportation costs. In densely populated urban and suburban areas, more calls than average can be made after initial visits. Therefore it is estimated that 120 men can cover all offices of the first three classes.

120 men @ \$516.00 - \$61,920 per month.

February 24, 1936

HM, Jr. told the group at the regular 9:30 meeting this morning that it had been decided to employ five men (worthy Democrats) whose duty it will be to call on post offices and follow up the sales of baby bonds. New Jersey, Delaware and Maryland will be used as a test area for this work. The men, he said, would act as salesmen for the United States Treasury. Each man, he felt, could call on three to five post offices a day.

This plan will be followed for a month and if it proves satisfactory, it will be extended to other sections of the United States.

February 21, 1936

I called the President from the Savoy-Plaza and told him that many of the big insurance companies are urging that we put out a 30-year bond at 3%. The President thought this was very interesting. Up to now we have never issued anything above a 12-14 year bond.

I also reported to him that I had had a talk with Bell and McIntyre and that Bell had told me what he was preparing for the President on the seed loan message and that it sounded very encouraging.

LOANS FOR CROP PRODUCTION—VETO MESSAGE

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

RETURNING

WITHOUT APPROVAL THE BILL (S. 3612) ENTITLED "AN ACT TO PROVIDE LOANS TO FARMERS FOR CROP PRODUCTION AND HARVESTING DURING THE YEAR 1936, AND FOR OTHER PURPOSES"

FEBRUARY 24 (calendar day, FEB. 26), 1936.—Read; referred to the Committee on Agriculture and Forestry and ordered to be printed

To the Senate:

I return herewith, without my approval, S. 3612, a bill entitled "To provide loans to farmers for crop production and harvesting during the year 1936, and for other purposes."

This bill authorizes an appropriation of \$50,000,000 from the general fund of the Treasury for loans to farmers during the year 1936, for production of crops—principally seed loans.

In approving the bill providing \$40,000,000 for crop production loans for 1934, I stated that I did so on the theory that it was proper to taper off the crop-loan system, which had been initiated on a large scale as early as 1931, rather than to cut it off abruptly, particularly since such loans would serve a useful purpose in aiding certain farmers unable to qualify for crop production loans through the newly established farmers' production credit associations, and that the 1934 loan by the Government should thus be considered as a tapering-off loan.

It is true that I gave my approval to a \$60,000,000 crop-production loan for 1935, but this loan was primarily for relief purposes principally in the drought-stricken areas, and I recommended to the Congress that the cost of such loans should properly be defrayed from the appropriation for relief purposes. Accordingly \$60,000,000 was re-appropriated from unobligated balances under allocations from the appropriation of \$525,000,000 for relief in stricken agricultural areas

contained in the Emergency Appropriation Act passed the previous year.

In my Budget message, transmitting the 1937 Budget, I stated:

If the Congress enacts legislation at the coming session which will impose additional charges upon the Treasury for which provision is not already made in this Budget, I strongly urge that additional taxes be provided to cover such charges.

No provision was made in the financial program for the fiscal year 1936, or the fiscal year 1937, for additional crop loans, and, notwithstanding my Budget statement, quoted above, the Congress by this bill authorizes an additional draft upon the Treasury for \$50,000,000 for new crop loans, without making provision for any revenue to cover such loans.

However, while I am returning this bill without my approval, I recognize that there still exists a need for crop-production loans to farmers whose cash requirements are so small that the operating and supervisory costs, as well as the credit risk, make credit unavailable to them at this time through the usual commercial channels and who, unless extended assistance of this character, would no doubt find it necessary to seek some other form of relief from the Government. This is particularly true with respect to those areas in which unusual conditions prevail because of drought, dust storms, floods, rust and other unforeseen disasters.

I fully agree with the Congress that provision should be made for such borrowers during the year 1936, but I feel that other borrowers should seek credit elsewhere.

I am convinced that the immediate and actual needs to which I have referred can be met during the year 1936 by an expenditure of funds materially less than that proposed in the bill under discussion.

Furthermore, these needs can be met, without the necessity of enacting authorizing legislation, through an allocation of funds by me from the appropriation provided in the Emergency Relief Appropriation Act for 1935, which appropriation, I am informally advised by the Comptroller General of the United States, can be utilized for such loans as I might indicate by Executive order to be desirable and necessary as relief measures.

I believe, therefore, that a special appropriation by the Congress at this time is both inadvisable and unnecessary. That being so, and in the absence of such legislation, I propose in order to meet this need to issue an Executive order within the next few days.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
February 20, 1936.

SEVENTY-FOURTH CONGRESS OF THE UNITED STATES OF AMERICA; AT THE SECOND SESSION, BEGUN AND HELD AT THE CITY OF WASHINGTON ON FRIDAY, THE THIRD DAY OF JANUARY, ONE THOUSAND NINE HUNDRED AND THIRTY-SIX.

AN ACT To provide for loans to farmers for crop production and harvesting during the year 1936, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Governor of the Farm Credit Administration, hereinafter in this Act referred to as the "Governor", is hereby authorized to make loans to farmers in the United States and in Alaska, Hawaii, and Puerto

Rico, during the year 1936, for fallowing for the production of crops, for planting, cultivating, and harvesting of crops, for supplies incident to and necessary for such production, planting, cultivating, and harvesting, and for feed for livestock, or for any of such purposes. Such loans shall be made and collected through such persons and agencies, upon such terms and conditions, and subject to such regulations, as the Governor shall prescribe.

Sec. 2. (a) There shall be required as security for any such loan a first lien, or an agreement to give a first lien, upon all crops of which the production, planting, cultivating, or harvesting, is to be financed, in whole or in part, with the proceeds of such loan; or, in case of any loan for the purchase or production of feed for livestock, a first lien upon the livestock to be fed. Fees for recording, filing, registration, and examination of records (including certificates) shall not exceed 75 cents per loan, and may be paid from the proceeds of the loan. Each loan shall bear interest at the rate of 5½ per centum per annum.

(b) The amount which may be loaned to any borrower pursuant to this Act shall not exceed \$500. Provided, however, That in any area certified by the President of the United States to the Governor as a distressed emergency area, the Governor may make loans without regard to the foregoing limitations as to amount, under such regulations and with such maturities as he may prescribe therefor.

(c) No loan shall be made under this Act to any applicant who shall not have first established to the satisfaction of the proper officer or employees of the Farm Credit Administration, under such regulations as the Governor may prescribe, that such applicant is unable to procure from other sources a loan in an amount reasonably adequate to meet his needs for the purposes for which loans may be made under this Act.

Sec. 3. (a) The moneys advanced by the Governor in connection with each loan made under the provisions of this Act are declared to be impressed with a trust to accomplish the purposes provided for by this Act (namely, for fallowing, for the production of crops, for planting, cultivating, and harvesting of crops, for supplies incident to such production, planting, cultivating, and harvesting, and for feed for livestock, or for any of such purposes); and may be used only for the purposes stated in the borrower's loan application, and until so used, shall continue subject to such trust and be free from garnishment, attachment, or the levy of an execution.

(b) It shall be unlawful for any person to make any material false representation for the purpose of obtaining, or assisting another to obtain, a loan under the provisions of this Act; or willfully to dispose of, or assist in disposing of, except for the account of the Governor, any crops or other property upon which there exists a lien securing a loan made under the provisions of this Act.

(c) It shall be unlawful for any person to charge a fee for the purpose of preparing or assisting in the preparation of any papers of an applicant for a loan under the provisions of this Act.

(d) Any person violating any of the provisions of this Act shall, upon conviction thereof, be punished by a fine of not more than \$1,000, or by imprisonment for not more than six months, or both.

Sec. 4. The Governor shall have power, without regard to the provisions of other laws applicable to the employment and compensation of officers and employees of the United States, to employ and fix the compensation and duties of such agents, officers, and employees as may be necessary to carry out the purposes of this Act; but the compensation of such officers and employees shall correspond, so far as the Governor deems practicable, to the rates established by the Classification Act of 1923, as amended. For the purpose of carrying out the provisions of this Act, and of collecting loans made under Acts of the same general character, including loans made by the Governor with funds appropriated under the provisions of the Emergency Appropriation Act, fiscal year 1935, the Governor is authorized to use the facilities and services of any agency, institution, or corporation, operating under the supervision of the Farm Credit Administration, and any officer or employee of any such agency, institution, or corporation, or of the Farm Credit Administration, and may pay for such services and the use of such facilities from the funds made available for the payment of necessary administrative expenses; and such agencies, institutions, and corporations are hereby expressly empowered to enter into agreements with the Governor for the accomplishment of such purposes.

Sec. 5. (a) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$50,000,000, or so much thereof as may be necessary, to carry out the provisions of this Act. Any moneys

so appropriated, and all collections of both principal and interest on loans made under this Act, may be used by the Governor for making loans under this Act and for all necessary administrative expenses in carrying out the provisions of this Act and in collecting outstanding balances on crop production, seed, and feed loans made under prior legislation of the same general character.

(b) Expenditures for printing and binding necessary in carrying out the provisions of this Act may be made without regard to the provisions of section 3709 of the Revised Statutes.

JOSEPH W. BYRNS,
Speaker of the House of Representatives.
KEY FITTMAN,
President of the Senate pro tempore.

[Endorsement on back of bill:]

I certify that this act originated in the Senate.

ED. A. HALSEY, Secretary.

February 24, 1930

February 24, 1936

Bell told HM, Jr. yesterday morning that over the week-end he discovered that the money they were going to get from the Regional Agricultural Credit Corporations is in the Budget and, therefore, this money cannot be taken for seed loan. It was very fortunate that Bell discovered this, because if the President had signed the message that Bell prepared and it was then discovered that we could not use this money for seed loan it would have been very embarrassing.

Bell said he had talked to McIntyre and arranged to see the President the first thing Tuesday morning when he got back from Hyde Park. HM, Jr. said he too wanted to be present at that meeting.

HM, Jr. told Bell that if no other money can be found for seed loan, it will make it all the more necessary for the President to veto the bill. The Secretary called McIntyre and suggested that the President ought to sign the veto message and issue it from Hyde Park as it would then release him from the pressure on the Hill. McIntyre said he could not take it up with the President and suggested that Bell and HM, Jr. come to the White House Tuesday morning and discuss it further with the President and tell him that the money they thought was available from RACC is included in the Budget and for that reason cannot be used for seed loan. HM, Jr. remarked that it should teach the men on the Hill a lesson so they will be sure money is available before they put through a bill.

February 24, 1938

Mr. Gaston and Mr. McReynolds discussed with the Secretary the advisability of his making a news-reel picture on the bonus bonds, showing the presses at the Bureau of Engraving and Printing going at full speed so that the bonds will be ready for delivery on the 15th of June.

HM, Jr. refused to make the picture and told the men his reason, confidentially, was that the President had definitely told him and Bell that he does not want the bonus to appear in the Budget for this fiscal year. HM, Jr. said that he knows the reaction of the public because of the delay will be very bad but knowing how the President feels, he, HM, Jr., definitely will not make the movie or ~~to~~ have any part in the publicity.

February 24, 1938

Burgess and HM, Jr. have had several discussions about the March 15th financing. Today HM, Jr. told Burgess that he was under the impression that at the time we offered to the public the \$450,000,000 of bills maturing March 15, Coolidge made the statement that there would be no conversion privilege and they would be paid in cash at maturity. However, it is HM, Jr.'s wishes that when he makes the announcement on March 2nd of the Government's financing he will include a conversion privilege for the bills which mature March 15.

64A

Monday
February 24, 1936

HM, Jr: Hello, George -

George
Harrison: Yes, Henry.

HM, Jr: Good morning

H: Are you back in Washington?

HM, Jr: Yes

H: I see.

HM, Jr: George, there's one phase of this financing which I wish you'd particularly turn over in your mind -

H: Yes

HM, Jr: I've discussed this thing with Burgess and he and I are a little bit on the opposite sides of the fence -

H: Yes

HM, Jr: Nothing serious, but - and that is the question of whether we'd take the four hundred and fifty million that comes due on the fifteenth of March and give them the right to convert into some new issue or whether we pay it off in cash.

H: Yes

HM, Jr: Now, it has its advantages and disadvantages. The Treasury proper - people like Bell say mechanically it's easier to handle if we let them convert.

H: Yes

HM, Jr: The other - the public relations advantages are that we ask for "x" million new dollars and then whatever we ask for we have to add the four hundred and fifty - it looks that much bigger, see?

H: Yes

HM, Jr: And the only headlines we get is when we announce it and whatever we ask for we've got to add four hundred and fifty to it if we pay it off in cash, see?

H: Yes - And I think you can handle that now.

HM, Jr: The other advantage - I am going to give you all the advantages, you can get all the disadvantages from Burgess - is that we also could say

that we're taking a bill and converting it into a longer term issue, see?

H: Yes

HM,Jr: I'm giving you the advantages and you can get the disadvantages from Burgess.

H: What's he want - pay in cash?

HM,Jr: Yes - well, Coolidge made a kind of informal announcement to that effect when I was abroad, see? - that we would pay it off in cash.

H: Oh -

HM,Jr: But there's nothing binding and we can change our mind.

H: Yes

HM,Jr: See?

H: All right - well let me think it over -

HM,Jr: I've asked different people - when I tell it to them nobody seems to have the slightest recollection -

H: I didn't remember it.

HM,Jr: Well, he did - in a sort of conference he said they'd most likely be paid off with tax money.

H: I believe I do remember it now that you remind me of it.

HM,Jr: But the distinct advantage is - from our standpoint is we do give them a conversion privilege.

H: Yes

HM,Jr: But, I'm telling you, Burgess has distinct dislikes for it and you can get those from him.

H: Yes, I'll get that from him. And I - I'm planning possibly to be there tomorrow and I am I'll come in and see you.

HM,Jr: Yes, but call me before, will you?

H: Yes - all right.

HM,Jr: Thank you

that we're taking a bill and converting it into a longer term issue, see?

H: Yes

HM,Jr: I'm giving you the advantages and you can get the disadvantages from Burgess.

H: What's he want - pay in cash?

HM,Jr: Yes - well, Coolidge made a kind of informal announcement to that effect when I was abroad, see? - that we would pay it off in cash.

H: Oh -

HM,Jr: But there's nothing binding and we can change our mind.

H: Yes

HM,Jr: See?

H: All right - well let me think it over -

HM,Jr: I've asked different people - when I tell it to them nobody seems to have the slightest recollection -

H: I didn't remember it.

HM,Jr: Well, he did - in a sort of conference he said they'd most likely be paid off with tax money.

H: I believe I do remember it now that you remind me of it.

HM,Jr: But the distinct advantage is - from our standpoint is we do give them a conversion privilege.

H: Yes

HM,Jr: But, I'm telling you, Burgess has distinct dislikes for it and you can get those from him.

H: Yes, I'll get that from him. And I - I'm planning possibly to be there tomorrow and I am I'll come in and see you.

HM,Jr: Yes, but call me before, will you?

H: Yes - all right.

HM,Jr: Thank you

Monday
February 24, 1936

HM, Jr: Hello -
Marriner S.
Eccles: Hello -

HM, Jr: Good morning, Marriner -

E: Good morning

HM, Jr: How are you?

E: I'm fine, how are you?

HM, Jr: I'm pretty well.

E: Sorry to hear about Mrs. Morgenthau's mother passing away - was it unexpected or is she an old lady - ?
or -

HM, Jr: No - it wasn't unexpected.

E: I see.

HM, Jr: No - she's - but those things happen to all of us.

E: Well, that's right when - especially when we get past a certain age.

HM, Jr: Yes - Marriner, in regard to this coming financing, there's one particular phase I wish you'd think about and if you'd talk about to your associates - I'm giving you forty-eight hours this time.

E: (Laughter) All right.

HM, Jr: There's four hundred and fifty million dollars worth of bills coming due on the fifteenth of March -

E: Yes

HM, Jr: While I was in Europe Jeff Coolidge said that we'd pay those off out of tax receipts - would not give them the usual rights to refund, see?

E: Yes

HM, Jr: Hello?

E: Yes

HM, Jr: There are distinct advantages in giving them that right although they were told that they couldn't have it last September, see?

E: Yes

HM,Jr: The advantages are these, that whatever amount of new money we borrow we'd - you'll have to add four hundred and fifty million to it, you see? - if you pay off in cash.

E: Have they got any of our -

HM,Jr: Well, let "x" - let six million dollars, I mean, use - this isn't the right - let's say we've got to get five hundred million dollars new money -

E: Yes

HM,Jr: Well, if you pay off these bills that are coming due you'd have to add four hundred and fifty -

E: Yes

HM,Jr: - and the papers would say we were buying nine hundred and fifty -

E: That's right

HM,Jr: If, on the other hand we gave them the conversion privilege we could - the papers would only say we were buying five hundred million.

E: That's right.

HM,Jr: see?

E: That's right.

HM,Jr: Now, they argue - the people ^{that}/don't want it say - say that we're handing them something which they're not entitled to. Well it's - we not handing them a hell of a lot - in certain rights, you see?

E: Well, of course you've always done that -

HM,Jr: We've always done it.

E: And unless you - unless you expect to discontinue it - it seems to me that it would be rather upsetting and -

HM,Jr: In the future, as long as I'm here, we're always going to do it that way. I mean, that is, give these people rights.

E: Yes - well, you'll have to take care of them that way this time then, won't you?

- HM, Jr: Well, that's the argument - that's the argument - that's, I think, the only argument we'll really - we'll have Wednesday - the only real one, see?
- E: But you will take care - to give them the right - ?
- HM, Jr: The right to convert
- E: Then you'll get so much new money.
- HM, Jr: That's right - and whatever we ask for in new money can be
- E: Yes
- HM, Jr: Those other things simply are conversion bills which are coming due.
- E: Oh - so it's really only five hundred million and not nine? Whereas if you pay them off in cash it's nine.
- HM, Jr: That's right
- E: Yes, that's right, that's the way it looks.
- HM, Jr: See?
- E: Well, I think you're perfectly right on this other basis.
- HM, Jr: Well -
- E: That's my opinion. I -
- HM, Jr: Some of the people are going to tell me we can't do it. we can't do it, we should do it. Now from a mechanical standpoint Bell, who is responsible for it, he'd much rather see the conversion, he says it's much easier to handle.
- E: Than to pay off and redistribute?
- HM, Jr: Yes
- E: Yes
- HM, Jr: He said from a mechanical standpoint he'd much rather see us let them convert.
- E: Yes - yes Well, I think it's better from a psychological standpoint to convert.

HM,Jr: Well - I wish you'd think it over. Listen, do you ever get up early enough to walk down with me?

E: Well, I can do it, but (laughter) I'm not a very early riser. I - I'm one of these fellows that works -

HM,Jr: Do you want to walk -

E: everybody else go to bed.

HM,Jr: Do you want to walk down with me tomorrow morning?

E: I'll be glad to.

HM,Jr: I leave the house at eight-twenty -

E: O. K.

HM,Jr: Stay up all night and then you'll be there.

E: O. K., then - that's right, eight-twenty -

HM,Jr: All right.

E: - in the morning. Are you - do you still feel - are you still figuring on your financing along the line you discussed with - - Burgess?

HM,Jr: Yes, and I'll talk to you about it tomorrow morning when we walk down.

E: Fine -

HM,Jr: You know I live twenty-two-O-one R - ?

E: Oh, golly, I forgot that - over to the other place.

HM,Jr: Twenty-two-O-one R -

E: Yes - twenty-two-O-one R?

HM,Jr: And I'll see you tomorrow morning -

E: Eight-twenty -

HM,Jr: Eight-twenty - better buy an alarm clock.

E: All right - (Laughter)

HM,Jr: All right

E: All right - (laughter) Goodbye.

HM,Jr: Goodbye.

Federal Reserve Bank of Boston

Monday
February 24, 1936

546

HM, Jr: Hello -

Roy
Young: Yes

HM, Jr: Hello, Mr. Young -

Y: Good morning, Mr. Secretary, how are you?

HM, Jr: Fine - how are things up in Boston?

Y: Pretty good

HM, Jr: There's one particular phase of this financing which I wish you'd think about before you come down -

Y: Yes

HM, Jr: And that is this: - This four hundred and fifty million dollars worth of bills which come due on the fifteenth of March, if you remember while I was gone, Jeff Coolidge said that they'd pay more for - out of tax receipts. I'm interested in thinking over whether or not we couldn't give those bills a conversion privilege and not pay them off with cash, see? Now there are arguments on it for both ways, see?

Y: Yes

HM, Jr: People say convert a bill into a longer issue but I think that that's all right. The main thing that I don't like about it is if we have to pay it off in cash, whatever we ask for new cash, it just adds four hundred and fifty on top of it. And in the newspapers to the man who is a financier it just makes it look that much bigger, see?

Y: Yes

HM, Jr: And unfortunately just at this time they'd play up everything like that, you see? And from a Treasury standpoint from a mechanical standpoint, a conversion, they tell me in the Treasury is much easier to handle. Now, I - when you come down there's considerable discussion on that particular point, whether we should or shouldn't, see? And I'd like you to think it over and if you would talk it over with some of your associates.

Y: All right, I'll be very glad to do that.

HM, Jr: You get what I mean?

Y: Yes - and I am leaving Tuesday night - and I'll be there -

HM, Jr: Yes

Y: Wednesday morning.

HM, Jr: But that particular point, I mean, we have a perfect legal right to offer conversion -

Y: Yes - What did you have in mind, about five years? - or longer?

HM, Jr: Oh, you mean - as to what we'd do?

Y: About the conversion.

HM, Jr: Well, we're thinking again of two different kinds of securities.

Y: I see.

HM, Jr: I mean a five year and then a medium bond -

Y: Yes

HM, Jr: See?

Y: Yes

HM, Jr: So they'd have their choice. And we're talking of picking up the April maturity also.

Y: Yes

HM, Jr: You see?

Y: I see.

HM, Jr: So, if we pick up the April - it's five fifty-nine there and the March is four fifty - a little, roughly a little over a billion dollars. Then on top of that we've got to get our new money.

Y: I see.

HM, Jr: Now, if we add the March four hundred and fifty to the new money it makes an awful big wad.

Y: Yes

HM,Jr: Of course, actually it's no more, but when we make our announcement that makes the headlines - what we do subsequently only goes on the financial page.

Y: I see.

HM,Jr: You see? I mean, it just so happened while I was away at a Press Conference Jeff sort of said, 'This money that comes due - we'll pay for it out of tax receipts! But that isn't binding in any sense.

Y: Yes

HM,Jr: I mean we can change our mind.

Y: talk it over with some of our people -
that

HM,Jr: No, I'm calling you today- so/you would have forty-eight hours to think it over.

Y: Yes, all right.

HM,Jr: I mean you can see there are arguments on both sides.

Y: Oh, yes, I can see that right away.

HM,Jr: Yes, thank you.

Y: All right

HM,Jr: Thank you.

February 24th, 1936.

MEMORANDUM FOR MRS. KLOTZ:

Assistant Secretary Taylor and Mr. McReynolds were told by the Secretary that it was his desire to limit for the present the assignment of specific duties to Assistant Secretary Taylor to:

1. The handling of Gold and Silver and Foreign Exchange matters - those things coming through Mr. Lochhead;
2. Acting as the Department's contact with the State Department on various committees, including the Committee on Commercial Policy; and
3. The Baby Bond program.

Mr. McReynolds was directed to prepare the necessary orders covering these matters and to present at staff meeting tomorrow a letter for the Secretary's signature to the Secretary of State designating Assistant Secretary Taylor as his representative on the State Department Committee. This draft of letter is to be discussed and cleared by Mr. Oliphant, Mr. Taylor and Dr. Haas in the meantime.

The Secretary also asked Mr. McReynolds to consider the advisability of placing on Mr. Upham the responsibility for handling the banking contacts of the Department with the various other Government agencies with whom the Treasury deals.

February 24th

Discussion about Seagrams Canadian liquor case.
Question is whether to sue or settle.

A meeting was held at 10:45 this morning in Secretary Morgenthau's office on the above case. Those present were Secretary Morgenthau, Mr. Oliphant, Mr. Graves and Mr. Eli Frank, Jr.

Mr. Graves: I made it plain that anything I may have said was subject to approval or ratification by Mr. Oliphant.

Mr. Morgenthau: Who made the suggestion that they may pay three or four million dollars?

Mr. Graves: Mr. Whitaker.

Mr. Oliphant: He knows more about the case than any other living man.

Mr. Graves: Whitaker was approved here.

Mr. Morgenthau: Now Whitaker suggests that we take three or four million dollars?

Mr. Graves: Whitaker said that he agreed with us that there should be no cash settlement. He had in mind three, four or five million dollars.

Mr. Morgenthau: What do you say?

Mr. Graves: That, in consideration of the fact that they told us that our criminal case is a poor one, we have only a poor chance of succeeding in a civil suit.

Mr. Morgenthau: Boiling it down do you go along with Whitaker?

Mr. Graves: Yes on that condition that the settlement is a substantial one.

Mr. Morgenthau: Who represents Oliphant?

Mr. Graves: Mr. Frank and Mr. Klaus.

Mr. Oliphant: Mr. Frank was under rigid instructions from me never to let the outside know in case I took the other view.

Mr. Morgenthau: Do you suppose Frank is in your back office?

Mr. Oliphant: Yes.

Mr. Morgenthau: I'll get him in.

Mr. Graves: This conference was quite protracted. We were there two hours and a half.

Mr. Morgenthau: If we should go to Court, what Court does that appear in?

Mr. Oliphant: One of the District Courts.

At this point the telephone rang and Mr. Morgenthau talked with Mr. Eccles.

While Mr. Morgenthau was talking on the telephone Mr. Frank came in.

Mr. Morgenthau to Mr. Frank: (Explained to Frank what the discussion was about and then said,) Do you recommend we sue or settle? Say yes or no.

Mr. Frank: I think that is impossible at this time.

Mr. Morgenthau: You're a good lawyer.

Mr. Frank: It all depends on what they do. The next move is up to them.

Mr. Morgenthau: What is the next move? I was called on the phone and told to give an answer whether I would sue or settle.

Mr. Oliphant: One new fact to take into consideration. I haven't had a chance to go over the record the way I want to. There is a matter of substance. They have done us out of this revenue - whether or not you can convince the Court. If as a matter of substance - as a matter of broad morals they are guilty and did deprive us of the revenue, as I think, there is every justification to proceed with the legislation. Hester tells me there has been a radical change up on the Hill with reference to the legislation.

Mr. Morgenthau: What does that legislation do?

Mr. Frank: That merely helps us to get jurisdiction over them by refusing to let them import any liquor.

Mr. Morgenthau: Any company who has a tax case pending before the Treasury can't import liquor unless that case is settled - is that right?

Mr. Frank: That is right.

Mr. Morgenthau: I gather in talking with Oliphant, and I have known him for three years now, that he is not ready.

Mr. Oliphant: No.

Mr. Morgenthau: So I will postpone this until you are ready. We will wait and you consult with Graves and when the three of you are ready I am ready.

Mr. Frank: Whitaker wants to be sure that what Mr. Graves and I said on Thursday afternoon has your approval.

Mr. Morgenthau: What did you say?

Mr. Frank: I said we saw no reason at this time, before commencing action, to talk to these people.

Mr. Oliphant: No I wouldn't do that.

Mr. Morgenthau: No, Graves put it up to me and I told him that he could not tell them anything until Monday. I wouldn't be rushed. I wanted to talk to Oliphant. This matter has been pending for a year and I wanted to wait until Monday. If you went beyond that you are out on the end of a limb.

Mr. Graves: We are not out on the end of the limb because we said what we said there was subject to ratification or approval here.

Mr. Morgenthau: No Canadians present?

Mr. Graves: No.

Mr. Morgenthau: We will sit tight until Oliphant has a chance to settle this thing and that's that.

Monday
February 24, 1936

HM, Jr: Hello, Mr. Conboy?

Martin
Conboy: Hello, Mr. Secretary -

HM, Jr: Yes, sir

C: I'm very sorry - I'm sorry you had to go up on that very sad mission the other day.

HM, Jr: Yes, it was quite sad.

C: And there's a man whose name has been sent down to you for this position that was made vacant by the transfer of - of Bob Jackson.

HM, Jr: Yes

C: His name is Leo P. Dorsey.

HM, Jr: Yes

C: I think you have his name down there.

HM, Jr: Yes, I have.

C: He used to be in this office.

HM, Jr: Oh, yes

C: And he was made counsel to the Home Owners Loan Corporation -

HM, Jr: Yes

C: And has been working there practically since the organization of that enterprise.

HM, Jr: Yes

C: He graduated from the University of Pennsylvania in nineteen hundred and twenty.

HM, Jr: Yes

C: And from Harvard Law School in twenty-three. He was originally over with - with the Hornblower firm - whatever the name of it was at the time. That's - that was the firm that James Byrnes was in you know at one time.
Mr.

HM, Jr: Yes

C: Former Byrnes, Miller and Potter.

HM, Jr: You know I've got his complete record -

C: Yes, well, I - I can tell you this about him -

HM, Jr: Yes

C: He is unquestionably honest -

HM, Jr: Yes

C: - industrious -

HM, Jr: Yes

C: and courageous -

HM, Jr: Yes

C: He has had a very excellent training in connection with matters relating to corporate management.

HM, Jr: Yes

C: And he is very well versed in matters with reference to corporate finance.

HM, Jr: Yes

C: It is my understanding that he has done a very good and thorough job at the Home Owners Loan Corporation and he has acquired some experience in connection with administration affairs in that respect. And for the - for that type of work -

HM, Jr: Yes

C: Work that - that calls for an intimate knowledge of and experience with matters of corporate management -

HM, Jr: Yes

C: - and corporate finance - he is an excellent man.

HM, Jr: Of course that isn't what the job calls for.

C: No - in connection with corporate management and corporate finance of course he has had a good deal to do with the tax problems -

HM, Jr: Yes

C: of corporations.

HM, Jr: Yes

C: And in that fashion has obtained a familiarity with tax matters.

HM, Jr: Yes

C: Now that - that I think comprehends my general opinion with regard to his ability. He's - he's very peaceful -

HM, Jr: Yes

C: And if the position that you have down there would call for the kind of work that he's capable of doing he'd make a good man for you.

HM, Jr: Well, I appreciate very much your calling up. I've had this from now a number of sources and we're checking his record very carefully.

C: Yes

HM, Jr: And I thank you for calling me.

C: All right, thank you, Mr. Secretary.

HM, Jr: Goodbye.

$$\begin{array}{r}
 1017 \\
 \underline{120} \\
 1137 \\
 \underline{1620} \\
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February 24, 1936

MATERIAL FOR TAX MESSAGE

In my last budget message, I directed attention to my statement in the budget summation of September 30, 1935, that, if attacks on processing taxes were sustained, the country would have to face the problem of financing existing contracts for benefit payments out of some form of new taxes. I said also that additional charges upon the Treasury, for which provision was not already made in the budget, should be accompanied by additional taxes to cover them. In pursuance of this fixed budget policy, I am impelled by events which have taken place since those statements were made to recommend legislation to provide additional Federal revenues.

I recommend that, in framing tax legislation the Congress consider: first, imposing suitable excise taxes on the processing of farm products; second, taking for public use a substantial part of any unjust enrichment resulting from the return or non-payment of Federal excises; and, third, making a change in our general tax laws which will produce substantial revenues and, at the same time, greatly improve our general tax structure.

Processing Taxes

As one source of revenue to meet Treasury requirements, I recommend an excise tax on the processing of certain agricultural products. As matters now stand, the total annual amount obtained from this tax should be substantially less than that from similar levies in 1934 and 1935; and, in order further to reduce the tax affecting particular commodities, the number of commodities so taxed should be

increased. I recommend lower rates and the broadening of this source of revenue, in the interest of relatively low tax per unit and of maintaining present competitive relationships among the producers, processors and consumers of the various products.

Our experience with taxes derived from the processing of agricultural products indicates that the tax was borne almost wholly by the consumers in the case of some commodities, such as cotton and wheat, and that in others, such as hogs, the tax was in effect deducted from the market price paid to producers. Lower rates of tax on the processing of more commodities will reduce the contribution to Federal revenues made by those whose budgets were chiefly affected by commodities previously taxed and also by the producers of those products.

There is available to the Congress the experience of the Treasury Department and the Department of Agriculture with the previous tax, which should be helpful in fixing the lower rates, in enlarging the group of commodities the processing of which is to be taxed, and in making such adjustments and special provisions as fairness may require.

Windfall Income

Processing taxes, impounded by the lower courts and amounting to approximately \$180,000,000, have been ordered returned to the processors. In addition there are other unpaid processing taxes, which can not now be collected, approximating \$40,000,000. The

burden of these two classes of uncollected taxes, equally with that of the processing taxes actually paid, was, in the main, passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21(d) of the Agricultural Adjustment Act that, in the event of the invalidation of the processing taxes, only those processors who had borne the burden of these taxes should be permitted to receive refunds. Manifestly, the return of the impounded funds and the failure to pay taxes that were passed on result in unjust enrichment, contrary to the spirit of that enactment. In all fairness, neither the processors nor their distributors should be in a better position than had this tax liability never entered into their calculations.

Unfortunately it is not possible to return to each individual consumer the tax which was passed on to him in the prices he paid, or return to each individual producer the amount which was taken out of the prices he received; but by suitable legislation much of this can and should be added to the Federal revenues for the benefit of the country as a whole.

I, therefore, recommend that the Congress enact appropriate legislation to tax this windfall income. This legislation might well be modeled after the war profits tax of February 24, 1919, which

taxed at very high rates net income received from Government contracts executed during the War. The considerations of what is fair and in the public interest, which prompted the Congress to tax heavily the large war profits resulting from Government contracts, equally justify the imposition of the tax now proposed.

I recommend that, for similar reasons, the Congress consider also the general application of this principle to the unjust enrichment resulting from the return or non-payment of any Federal excise which has been passed on by the taxpayer.

Improving the Tax Structure

The present necessity to provide additional revenues should be used further to improve the general tax structure by legislation to reduce tax avoidance and otherwise to equalize the tax burden. There is a change in tax law which should be made now in pursuit of this two-fold aim. This change can not be passed on in the form of higher prices to consumers or lower wages to workers, and it will not reduce corporate profits.

I recommend the enactment of a withheld earnings tax. Ever since the adoption of Federal surtaxes on personal incomes, their effective and uniform application to personal incomes has been circumvented by the use of the corporate form of business organization. The Congress has repeatedly attempted to stop the evasion of surtaxes by this device in a series of enactments beginning in 1913 and extending to Section 102 of the Revenue Act of 1954. But these measures have

not been effective. During the year 1936 some \$3,000,000,000 of corporate profits, which, as earned, should be added to the incomes of stockholders and there taxed as other personal income, will, as matters now stand, be withheld from stockholders by those in control of corporations, and the Government will, in one year alone, be thus deprived of revenue amounting to \$800,000,000. Limits must be set to the power of the management of such corporations so greatly to influence the sources of revenue available to the Federal Government.

Such withholding of earnings from stockholders is preventing a uniform application of the tax on personal incomes. In practical operation, it is depriving stockholders of an opportunity to decide whether they wish their funds to remain in these corporations or to be put to other uses, and it is augmenting corporate surpluses already of a magnitude challenging public attention.

During the past few decades, we have witnessed the rapid growth of corporations and a corresponding decline of partnership and individual enterprises. In this struggle of small business to survive, the Government has not been neutral because this trend has been materially accelerated by the operation of our tax laws. These laws discriminate against business men who conduct their enterprises as individuals in favor of those who do so under the corporate form. In the latter case, profits are taxable only at the relative low corporate rates, whereas, in the former case, profits are subject to normal taxes and to surtaxes also. It is true that corporate earnings

when distributed are subject to the surtax in the hands of shareholders. But the fact is that such stupendous sums of earnings as I have indicated are yearly withheld from distribution to stockholders and they are either never subject to the surtax or such tax liability is long postponed.

It is the withholding of corporate earnings from stockholders that has made possible the expansion of corporate enterprises through the automatic reinvestment of earnings. This has fostered the rapid displacement of individual proprietors and small businesses by corporations of undue size. Normal corporate development is, of course, desirable. Healthy corporate life requires growth and constant adaptation to the changing industrial and social scene. Nevertheless, in a democratic society, real control over the investment policies of corporations should rest with the shareholder-owners.

Fiscal necessity, no less than desirable public policy, requires equal taxation of all corporate profits, whether reinvested in the business or distributed to stockholders. In addition to the present corporation income tax, a tax at the rate of 25% on that portion of the net income of every corporation which is not distributed to the stockholders is, under existing income tax rates, required to provide equality of taxation of all corporate earnings. I recommend its enactment.

Such a tax will not retard but stimulate enterprise and profits. Corporations distributing their profits will pay no added tax. Through offering subscription privileges to stockholders, earnings can be reinvested in an expanding business if their rightful owners thus consent; and such earnings will be invested in those enterprises which pass the scrutiny of an informed investing public.

Tax on Withheld Corporate Earnings

1. The primary purpose of the proposed tax of 25 percent on withheld corporate earnings is to increase the Federal revenues by eliminating an important source of unfairness and discrimination existing in the taxation of individual incomes.

When distributed to stockholders, corporate earnings are exempt from the normal individual income tax of 4 percent, but are subject to surtaxes ranging up to 75 percent. Corporate earnings which are not distributed in dividends escape these surtaxes altogether, thereby creating an unfair discrimination. All of the earnings of a partnership or of an enterprise owned by a single individual, whether reinvested or not, are subject to our income surtaxes.

The earnings withheld by corporations add no less to the wealth and taxpaying power of the shareholders than the earnings distributed in dividends; for the reinvestment of corporate earnings becomes reflected in the market prices of the stock and in the increased earning power of the corporation. Shareholders in corporations that pursue liberal dividend policies are discriminated against because they are not permitted to reinvest tax-free the corporate earnings received as dividends; whereas shareholders in corporations pursuing niggardly dividend policies are enabled, under the present law, to reinvest their share of the corporate earnings without payment of income taxes thereon.

2. It is estimated that a tax of 25 percent on withheld corporate earnings would substantially equalize, on the average, the taxes paid by shareholders in withholding corporations and those paid by shareholders in corporations distributing all their earnings.

Thus, it is estimated that in the calendar year 1936, corporations will withhold from their shareholders earnings approximating \$3,000 millions, in the absence of any change in law. If all such earnings were distributed in dividends, it is estimated that \$700 millions would be received by individuals and others not subject to surtaxes, and that \$2,300 millions would be received by individuals whose aggregate surtax liability thereon would approximate \$800 millions. The estimated yield of the proposed 25 percent tax — \$750 millions —, if corporate dividend policies remain unchanged, would therefore serve substantially to compensate the Federal Government for taxes now avoided.

3. It is to be anticipated, however, that a very important and highly desirable result of the proposed tax would be to stimulate the distribution to stockholders of a very large part of corporate earnings, thereby giving to stockholders a free choice, which they do not now possess, with respect to the disposition of earnings fundamentally belonging to them.

Tax on Withheld Corporate Earnings - 2/25/36 - 2

4. The question may well be raised, however, whether the proposed tax and the resulting liberal dividend policies would not inevitably limit the expansion of business enterprises by removing a present source of additional capital. The answer to this question is clearly in the negative. Corporations that desire additional capital for expansion, or additional liquid funds as reserves against future plans or other contingencies, could obtain such capital, as many of them regularly do now, by the sale of additional shares to their stockholders or the latter's nominees. To take an extreme case, let us assume a corporation that desired to reinvest in its business the entire earnings of \$5 per share, but that, nevertheless, decided to pay out dividends of \$5 per share in order to avoid the proposed tax. Such a corporation could easily obtain the reinvestment in its business of this \$5 per share by offering to its stockholders rights to purchase additional capital stock at prices well below the prevailing market prices. The rights themselves would constitute a valuable marketable instrument which could be sold by any shareholder who was not disposed to reinvest his dividend check in additional stock of the issuing corporation.

5. The proposed tax, it is clear, would be no new tax on business, nor could its burden be passed on to consumers or passed back to workers. No corporation need pay this tax. To avoid it, a corporation need merely pass on to its stockholders the earnings that belong to them anyhow. Nor does the tax involve any increase in individual income tax rates. Its primary result would be to make effective the present rates on some \$2,300 millions of income that now escapes ordinary income taxation. In other words, the proposed tax is designed to increase the effectiveness and fairness of the present individual income tax law and would be paid principally by recipients of large direct and indirect incomes who, under the present law, are able to avoid part of their just burden of income taxation.

6. It is urged that banks, trust companies, building and loan associations, and insurance companies be exempted from the proposed tax on the ground that the public welfare is best served in these cases by a maximum accumulation of capital to serve as a buffer or guaranty fund for their very large liabilities to the public. The Government has already recognized the grave inadequacy of the present capital funds of many of these institutions by subscribing itself to their preferred stock and capital debentures.

Why a 25 Percent Rate is Recommended for the Proposed
Tax on Withheld Corporate Earnings

It is estimated that a tax of 25 percent on withheld corporate earnings would substantially equalize, on the average, the taxes paid by shareholders in withholding corporations and those paid by shareholders in corporations distributing all their earnings.

Thus, it is estimated, that in the calendar year 1936, corporations will withhold from their shareholders earnings approximating \$3,000 millions, in the absence of any change in law. If all such earnings were distributed in dividends, it is estimated that \$700 millions would be received by individuals and others not subject to surtaxes, and that \$2,300 millions would be received by individuals whose aggregate surtax liability thereon would approximate \$800 millions. The estimated yield of the proposed 25 percent tax -- \$750 millions --, if corporate dividend policies remain unchanged, would therefore serve substantially to compensate the Federal Government for taxes now avoided.

Office of the Secretary of the Treasury,
Division of Research & Statistics, February 25, 1936.

Questions and Answers on
Proposed Tax on Withheld Earnings of Corporations

I. Structure and Revenue Aspects of the Tax

1. Q. What is the proposed tax on withheld earnings of corporations?

A. It is proposed to levy a tax of 25 percent on all undistributed corporation earnings - earnings withheld from stockholders. *

2. Q. Would any allowance be made for losses incurred during previous years?

A. Yes. A deduction would be allowed against net income in any year for losses incurred up to three years previously and not already allowed as a deduction from net income for the purposes of this tax.

3. Q. Would any attempt be made to tax undistributed surpluses accumulated prior to the enactment of the tax?

A. No. The proposed tax would apply only to corporation earnings accruing during fiscal periods ending during the calendar year 1936 and subsequently.

4. Q. What is the primary purpose of this tax?

A. To raise revenue and to increase the fairness and effectiveness of the present individual income tax.

5. Q. How will it accomplish this?

A. When distributed to stockholders, corporate earnings are exempt from the normal individual income tax of 4 percent, but are subject to surtaxes ranging up to 75 percent. Corporate earnings which are not distributed escape these surtaxes altogether, thereby creating an unfair discrimination.

The earnings withheld by corporations add no less to the wealth and taxpaying power of the shareholders than the earnings distributed in dividends; for the reinvestment of corporate earnings becomes reflected in the market prices of the stock and in the increased earning power of

- 2 -

the corporation. Shareholders in corporations that pursue liberal dividend policies are discriminated against because they are not permitted to reinvest tax-free the corporate earnings received as dividends; whereas shareholders in corporations pursuing niggardly dividend policies are enabled, under the present law, to reinvest their share of the corporate earnings without payment of income taxes thereon.

The proposed tax would, in most instances, increase Federal revenues indirectly, rather than directly, by stimulating the distribution of earnings so that the bulk of corporate earnings will become taxable under the individual income tax. The estimated revenue which would be received from stockholders in the form of individual income taxes on the additional dividend distributions stimulated by this tax would be about the same as that which would be paid by corporations in the form of tax, were the distributions withheld. It is estimated that the amount of revenue which would be received on 1936 corporation incomes, should this proposed tax be enacted, would amount either directly or in the form of increased collections from the individual income tax to about \$750,000,000.

6. Q. Would the tax be levied on the same base as the present corporation income tax?

A. No. The base is proposed to be enlarged to include the full amount of dividends received by one corporation from another instead of only 10 percent of such dividends as under the present corporation income tax. On the other hand, deductions would be allowed for Federal corporation income, war profits, and excess profits taxes paid or accrued, but not including the proposed tax on withheld corporate earnings. Deductions would also be allowed for net losses carried over from the three preceding taxable years and for dividends previously paid in excess of earnings; the carryover period, however, being limited to three years.

7. Q. Why should not dividends be exempted?

A. Dividends are partially exempted from the present corporation income tax because they have already been taxed once under that levy as the income of the corporation paying or earning them. This exemption of dividends from

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the corporation income tax is designed only to minimize double taxation, and that is the only justification for it. No possibility of double taxation would be presented in the present instance, for the proposed tax is a tax on withheld earnings, whereas earnings paid out in dividends are prima facie not withheld and so not previously taxed.

If intercorporate dividends were exempted from the tax base, the tax could be evaded with impunity simply by creating an additional corporation to receive and withhold the earnings of the original earning corporation.

8. Q. How much would the proposed tax increase the tax burden of corporations and individuals?

A. It would not increase at all the tax burden of corporations now paying out their full earnings as dividends nor that of the shareholders of these corporations. It would increase the tax burden of other corporations and of their stockholders only to the extent that a portion of their earnings is now escaping the full corporate and individual income taxes.

9. Q. Who would finally pay the revenues designed to be raised by the proposed tax? Will the tax tend to increase prices or decrease wages?

A. The tax would fall mainly upon individuals who now avoid their just share of the individual income tax. Assuming that all corporations elect to pay their full earnings in dividends rather than pay the tax on withheld earnings, about \$3,000 millions will be added to individual incomes in 1936, of which about \$2,300 millions will be subject to surtaxes. The tax will stay where it is levied and cannot to any consequential degree be passed forward to consumers in the form of higher prices for goods or backward to laborers in the form of lower wages.

II. Economic and Social Effects of the Tax

10. Q. Would the tax have any important effects other than eliminating an important weakness in the tax structure and substantially increasing the revenues?

A. Yes. It would tend to bring about certain changes in corporate practices.

11. Q. Apart from the gain to the Government in revenue, would these changes be beneficial to the social and economic structure of the country or otherwise?

A. They would be beneficial.

12. Q. What are they?

A. At the present time, the directors of each corporation exercise a sole discretion as to what part of the earnings should be set aside for a possible rainy day, what portion should be reinvested for purposes of expansion, and what portion should be distributed to the stockholders in the form of dividends. This discretion is subject to review only through the underlying right of the shareholders to reelect or retire members of the board of directors. The effect of the proposed tax would be to cause this discretion to be transferred largely to the stockholders themselves.

13. Q. What do you mean by this?

A. If the proposed tax should be enacted, the directors of every corporation would be confronted with the primary decision of whether to pay the tax or distribute all earnings. In most cases, their decision would be to distribute all earnings since payment of the tax would doubtless result in a powerful protest on the part of those stockholders subject to no surtax at all or to a surtax at a rate of less than 25 percent. It therefore seems a fair assumption that in most cases all earnings otherwise subject to the tax would be distributed. Even in the cases where they were not, the directors would doubtless feel a moral obligation to consult with the shareholders much more earnestly than under present circumstances.

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14. Q. If all earnings were paid out as dividends, would it mean that the corporations could not expand at all?

A. No. It would merely mean that in order for the funds to be available for purposes of expansion the stockholders would have to resubscribe all or a portion of the earnings distributed to them for new shares of the corporation.

15. Q. Is not this procedure very unusual?

A. No, it is quite common.

16. Q. How is it accomplished?

A. In the case of closely held corporations it is, of course, merely a matter of convenience whether surplus earnings should be reinvested or whether the stockholders should take them in dividends and reinvest the dividends in new stock. Under present circumstances the convenience is generally that the earnings be reinvested directly by the corporation since it saves the payment of a surtax on the part of the stockholders. If the proposed tax were enacted, the convenience would in most cases be the other way and for the same reason, since the tax burden would be less if the earnings were first declared out as dividends and then reinvested.

In the case of widely held corporations whose securities are listed on stock exchanges, the mechanics are well known and of long-established use. Rights to subscribe to additional stock are given to the stockholders, who then either exercise them or sell their rights.

17. Q. What are "rights" and how do they operate?

A. A "right" is an instrument, evidencing the preemptive right of a shareholder to subscribe to his pro rata portion of a new issue of stock. Such new stock is generally issued at less than the price at which the old stock is then selling, so that the "right" itself has value. For example, a corporation whose stock is selling at \$50 a share might issue "rights" entitling shareholders

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to subscribe to one share of new stock for every five of old at \$25 per share. In such a case a shareholder with five shares of stock worth \$50 a share, or \$250 in all, would be entitled to subscribe to one new share of stock at \$25. The entire six shares which he would then hold would be worth presumptively \$275, or about \$45.83 a share. The "right" to subscribe to one share of stock would hence have a theoretical value of \$45.83 minus \$25, or \$20.83. "Rights", in practice, usually sell very close to their theoretical value and are generally quoted in terms of the value of the "right" appertaining to each share of old stock rather than in terms of the value of the "right" to subscribe to one share of new stock. In the assumed case, the "right" appertaining to each share of old stock will have a value equal to one-fifth that of a "right" to subscribe to one share of new stock, or of about \$4.16. The "rights" are generally negotiable and stockholders who do not desire to take up their subscriptions to the new stock may sell their "rights" on the market.

During the twenties, a very large number of corporations which desired to undertake an expansion greater than that permitted by the amount of undistributed earnings, resorted to the issuance of "rights."

18. Q. Cite some important examples of the practical operation of "rights."

A. During the period between 1921 and 1930, the American Telephone and Telegraph Company earned an average of about \$15 a share a year on a consolidated basis (earnings were reported on a "company only" basis and ran very smoothly at around \$11-\$12 per share). The expansion of the Company during this period was financed principally by offering stockholders one share of new stock at \$100 a share for every five shares of old in 1921, 1922, and 1924; and one share of new stock at \$100 a share for each six shares of old in 1926, 1928, and 1930. During this entire period dividends were paid on the stock at the rate of \$9 per share a year. During the years 1921-1930, inclusive, the aggregate dividends paid by the Company approximated \$354.2 millions, while the Company raised about \$950 millions from its offerings of rights to stockholders.

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19. Q. What difference would it have made if the proposed tax had been in effect at that time?

A. It is reasonable to suppose that the stockholders of the Telephone Company would have approved of the expansion program then under way and have given it as much support of their own free will as they did under the semi-coercion of the directors. Dividends of the Company would have run at an average rate of around \$15 per share rather than \$9 per share. In order, therefore, to finance the expansion program it would have been necessary to have issued about two thirds again as many "rights" as actually were issued. The net effect would have been the same in that the shareholders as a whole would have subscribed back to the Company through taking up their "rights" an aggregate amount somewhat greater than the whole of the dividends distributed to them during the period. The Government, of course, would have received an additional amount of revenue equal to the individual income tax paid on the extra \$6 of annual dividends paid by the Telephone Company.

20. Q. Would this have been good economic policy?

A. Yes. The question of an expansion of corporate business, and particularly a large-scale expansion, such as that conducted by the Telephone Company during the twenties, lies at the very essence of corporate policy. Such a question ought to be submitted to the stockholders for their ratification, since it is their money which will be employed in the expansion. The real function of the stockholder in a capitalistic system is to determine in what class of enterprise he shall invest his funds. Beyond that all management functions must be left to the board of directors. A reinvestment of earnings, however, constitutes, in fact, an original decision as to the investment of funds and this decision ought to be left to the corporate shareholder whose sole interest is the apportionment of his funds to the industry where they will be most profitably invested, rather than to the corporate management which has the ulterior purpose of promoting its own aggrandizement.

21. Q. Would the stockholders of the Telephone Company have liked such a procedure?

A. The majority of them might, at first blush, have opposed the tax, but would have been quite delighted by its effects in actual operation. It would have increased the yield

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on Telephone stock by about 65 percent at any given price, and statistical studies have indicated that stock prices habitually capitalize distributed earnings much more generously than undistributed. In addition it would have meant the distribution of many more issues of rights - probably one a year rather than one every other year. These rights were very valuable and were looked upon as one of the most desirable perquisites attached to holding Telephone Company shares during this period.

22. Q. Were there many other companies in the same position as that of the Telephone Company?

A. Yes. Particularly utility companies pursuing regular expansion programs. Industrial companies tend to expand by more discontinuous steps, resulting in a longer interval between successive issuances of rights.

III. Objections to the Tax

24. Q. You say that the tax will encourage corporation managements to submit expansion programs to a referendum of the stockholders. Do you really believe that you can run a corporation by the town meeting method?

A. The analogy is poorly put. Of course, the vast majority of the work connected with the running of a corporation must be delegated by the stockholders to the board of directors and they can only reserve for themselves the decision of very fundamental questions. About all that any stockholder can be expected to decide intelligently is in what enterprise he wishes to place his money and who he wants to manage it. The first decision he makes when he purchases his stock and the second when he casts his annual vote for members of the board of directors.

The reinvestment of any profits which may arise presents an entirely new question, however. This new money is social income springing into being, and there is no a priori reason why it should be dedicated to any particular purpose. It is equitably the property of the individual stockholders. If the enterprise earning it is profitable and gives promise of being able to use additional capital to equal advantage, the shareholders may be well advised to reinvest it in the business. If they desire to spend it for purposes of consumption, as they have a perfectly legitimate right to do, then others will be very glad to subscribe their proportionate share of the needed new capital for them, paying them for the privilege.

The pivot upon which the capitalistic system depends, however, is the mobility of capital, and this in turn depends upon the right of each individual capitalist in the first instance and from time to time to determine the field in which he will employ his own capital. The vagaries of the corporate form of organization have merely created a special exception to this rule by which a certain portion of capital - namely, withheld corporation earnings - is not distributed competitively, but instead is invested by corporation directors without reference to the wishes of the individual owners.

The proposed tax would tend to assure that the fundamental question of the investment of additional capital in any enterprise should be in all instances rather than in only a portion of them be referred to the equitable owner of the capital.

25. Q. Would not the adoption of the proposed tax make it very difficult for corporations to plan for the future.

A. The ability of corporation managements to plan expansion programs to be financed out of earnings may easily be exaggerated, since the earnings themselves are in the case of most enterprises subject to a considerable range of fluctuation and may never be realized in sufficient amount to carry through a proposed program. In the case of closely held corporations the proposed tax would make no difference, since the directors, being more or less identical with the stockholders, would have the same freedom of planning as they do now, no more and no less.

In the case of widely held corporations, it might appear that the freedom of the directors to plan such expansion programs is seriously curtailed, but this appearance is for the most part an illusion, since it has already been pointed out that the directors of any corporation, the stock of which is widely held, can for practical purposes force a reinvestment of corporate earnings through the issuance of rights to subscribe to new stock at a price substantially below the market.

26. Q. Would not the proposed tax prevent corporations from establishing suitable reserves for contingencies?

A. No. Such reserves could be established by the issuance of rights, and the subscription by shareholders of such funds as were needed for the establishment of adequate reserves.

27. Q. Would not the proposed tax penalize corporations which retire debt out of earnings?

A. No. The retirement of debt out of earnings, when analyzed, consists merely in an increase in stockholders' equity at the expense of debt. That the stockholders' equity happens to be created by a rededication of earnings is merely an incident of the process and an incident which would not be materially changed were the earnings destined to retire debt first paid out in the form of dividends and then resubscribed by the shareholders.

28. Q. Would not the proposed tax tend to promote financing through debt issues rather than through the reinvestment of earnings?

A. It might, but only in so far as directors felt impelled to carry out plans for which stockholders were not prepared to put up the requisite funds of their own free will. In this connection it is interesting to note that most issues of fixed corporate debt require prior approval of the stockholders.

29. Q. Might not the adoption of the proposed tax sometimes transfer the control of a corporation from a majority unable to take up new stock to a minority able to take it up?

A. Presumptively the majority would be able to devote their share of distributed earnings needed back by the corporation to taking up new stock. If the financial resources and self-restraint of the majority were insufficient to permit this, it would appear the minority have at least an equal equitable right to control the corporation.

30. Q. Would not stable dividend policies be made impossible as a result of this tax?

A. No. In the first place, corporations will be free to accumulate all the reserves that they desire for stable dividend policies and other purposes provided only that they obtain their stockholders' consent - that is to say, provided only that stockholders are willing to reinvest earnings in the corporation for this and similar purposes.

In the second place, corporations will be given credit against the earnings subject to tax in subsequent years for any dividends that they may previously have paid out in excess of earnings, say during bad years. Hence, a corporation would be able to maintain dividend payments during a depression from reserves previously accumulated for this purpose, and would be able to recoup these disbursements from the earnings of subsequent years without liability for this tax. Hence, the tax would not make impossible the maintenance of stable dividend policies.

IV. Proposed Exemptions

31. Q. Should any types of corporations be excepted from the proposed tax?

A. Yes. Banks and trust companies, building and loan associations, and insurance companies.

32. Q. Should this exception be partial or complete?

A. They should be completely exempted from the tax.

33. Q. Why should these institutions be singled out for preferential treatment?

A. The capital funds of banks and trust companies, building and loan associations, and insurance companies serve as a guarantee fund or buffer between the depositors or policyholders of these institutions and the chance of loss. Additional capital gives these institutions relatively little chance to expand their business but results rather in providing more adequate protection for their creditors. These types of institutions are characterized at all times by the large amounts of liabilities which they incur relative to stockholders' capital. Whereas liabilities equal to the stockholders' capital are considered high in most businesses and liabilities of two or three times the stockholders' capital high in almost all, banks and insurance companies generally have from \$5 to \$20 of liabilities for every dollar of stockholders' capital. The greater the amount of stockholders' capital the greater the amount of protection to depositors and policyholders, and the less the amount of the stockholders' capital the less the amount of protection.

34. Q. How about mutual institutions?

A. All of the considerations urged above with respect to stock companies can also be urged with respect to mutual institutions except that the "surplus" of these institutions serves the same purpose which the stockholders' equity does in a stock institution. It would seem in the public interest that the accumulation of such surpluses should be encouraged rather than the reverse.

Feb. 25, 1936
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Henry Sturgis
First Nat

Tom Tompkins }
Bankers Trust }

Central (Lawrence
Hansen - Bill Gray

Col. Pope

Horace Sylvester
Brown - Harman

Ludby Mills

Solomon Bros. -

Guaranty
Potter + Conway

Tuesday
February 25, 1936

HM, Jr: Hello -

D. W. Bell: As I told him, I said, 'I'd like to have you help me work it out'. He said, 'Well, I think it can be done'. He said, 'You know how those things are grabbed at when they're first approached, but', he said, 'I'll go back and talk to the Secretary.....' -

HM, Jr: Was Burlew nice?

B: Very nice and very cooperative.

HM, Jr: Yes

B: And he went back and he called me back and then said, 'The Secretary's leaving on the four-thirty train but he instructed Hackett and me to try to work it out and get what the President wants and be at that conference and tell the President he'll cooperate. -

HM, Jr: Hello?

B: Yes

HM, Jr: Somebody on the wire

B: Did you get what I said?

HM, Jr: Yes

B: -that he told Hackett and Burlew to be at that conference at four o'clock -

HM, Jr: Yes

B: And to cooperate and give the President what he wanted if it is at all possible.

HM, Jr: My God!

B: Burlew just called me and said he thinks that they can do it if you give them a little time. They've already picked up seven million dollars and he said if it doesn't have to be made available all within the course of a few days why he says they can do it.

HM, Jr: Yes, I see.

B: And I said, 'Well, it seems to me sixty days might be well enough'. And he said, 'Well, that would be grand'.

HM, Jr: Yes

B: And I called the Comptroller General -

HM, Jr: Yes

B: He read over the bill which we had for its veto -

HM, Jr: Yes

B: And he said, 'I don't believe that there's anything in that bill which the President can't do under the four billion eight'.

HM, Jr: Yes

B: And he said, 'I think you and I can sit down and draw an executive order that will give Bill Myers all the authority that he needs to make these crop loans'. He said, 'As a matter of fact, Rex Tugwell is doing it now'.

HM, Jr: Yes

B: And he said it would be - he said, 'Just between us it would be a damn good thing if you would take Rex Tugwell's money away from him'.

HM, Jr: I see.

B: (Laughter) I've gotten splendid cooperation all the way around.

HM, Jr: Well now, the meeting is at the White House proper, isn't it?

B: I don't know. I assumed - I assumed it was.

HM, Jr: Yes

B: Because the President said he wasn't going over -

HM, Jr: Yes, we're due over there at four.

B: That's right.

HM, Jr: Well, do you want to stop by for me about ten minutes of and we can chew the rag a little bit, will you be ready then?

B: Well, I'm just on the last page now. I think I'll have it ready in just a second - to -

HM,Jr: Well, I won't be ready until ten of -

B: to go to the typewriter.

HM,Jr: I won't be ready until ten minutes of.

B: All right, well, I think I'll have everything ready by that time.

HM,Jr: Well, that sounds awfully good. Well, that means a veto then, doesn't it?

B: Yes - yes, we've got that all drafted, I don't know whether it will suit him or not, but we've got it all drafted -

HM,Jr: Fine

B: with a suggestion as to what he's going to do -

HM,Jr: Fine

B: And he's saying in there that - 'I have been informally advised by the Comptroller General that he can do this as I am contemplating issuing an executive order within the course of the next few days'.

HM,Jr: All right, thank you very much. I'll see you about ten minutes of five.

B: All right.

HM,Jr: Thank you.

B: Goodbye.

February 26, 1936.

The Executive Committee of the Open Market Committee met with the Secretary of the Treasury at 11:30 A.M. Those present were:

Mr. Morgenthau, Secretary of the Treasury,

Mr. Eccles, Chairman of the Board of Governors of the Federal Reserve System,

Mr. Harrison, Chairman of the Executive Committee,

Mr. Young, Governor, Federal Reserve Bank of Boston,

Mr. Fleming, Governor, Federal Reserve Bank of Cleveland,

Mr. Schaller, Governor, Federal Reserve Bank of Chicago,

Mr. Seay, Governor, Federal Reserve Bank of Richmond,

Mr. Burgess, Deputy Governor, Federal Reserve Bank of New York,

Dr. Viner, University of Chicago,

Mr. Bell, Director, Bureau of the Budget,

Mr. Haas, Bureau of Research & Statistics,

Mr. Upham, Assistant to the Secretary.

Speaking of Treasury balances Mr. Bell informed the group that we would go into March with a balance of more than \$1 billion. He estimates an income tax receipt of \$400 million and other receipts of \$225 million in March, giving a total available balance of \$1,600,000,000.

If securities are offered in March in exchange for the \$450 million of maturing bills we will need \$800 million new money to carry us through June. If there is no exchange privilege, maturing bills being taken care of out of tax receipts, we shall need \$1,350,000,000. In either event we will go out of March with a balance of \$1,800,000,000. Then we will need \$700 million or \$800

million cash in June. We will go into July with a balance of \$1,900,000,000 and that will run us until the end of October without any new borrowing -- other than rolling over of maturities.

Mr. Bell gave first of month balances as follows: March \$1,011,000,000, April \$1,814,000,000, May \$1,474,000,000, June \$1,234,000,000, July \$1,939,000,000. All figures, he said, are exclusive of bonus. He estimated that we ought to spend between \$250 million and \$300 million a month giving a balance at the end of October of around \$700 million.

There was some discussion of the bonus payment, Mr. Young expressing doubt about the possibility of getting the checks out with anything like the speed indicated by Mr. Bell, but Mr. Morgenthau asked that discussion of that subject be deferred until the financing problem had been given consideration. He referred to the fact that representatives of the Federal Reserve Banks have been here conferring with Treasury officials on the bonus problem and expressed appreciation of their systems.

Mr. Morgenthau explained confidentially to the members of the committee that he expects to raise money to pay the bonus with bills, adding \$50 million a week to regular offerings and to piling them up on December 15th with the idea of converting them into a bond issue. This will give greater elasticity to the program and be helpful because of the unknown requirements.

Mr. Morgenthau asked those present for an expression of opinion on whether the bills maturing March 15th should be paid off in cash or whether the holders should be given a conversion privilege.

Mr. Schaller said that all the people he had talked to were

against a conversion right with the exception of one bank and they were for it only because they have a substantial number of the maturing bills. He said in the first place that the small bank which has no bills and is strictly limited in the amount of its subscriptions has no chance to take advantage of the conversion privilege. In the second place brokers are of the opinion that it throws an uncertainty around the bill market, especially with relation to future issues.

Mr. Young said that his bond man thought a conversion possible. He added that he had been discussing the matter with Mr. Burgess since his arrival and had made up his mind that it would distort the bill market and put an artificial price on them and for that reason he disapproved.

Mr. Harrison said that he saw certain mechanical advantages from the standpoint of the Treasury to a conversion arrangement and certain publicity advantages in that the amount of new cash asked would seem to be less but that in fact nobody would be fooled and that the disadvantages were too great to justify doing it for these reasons anyway. He thought much the same thing could be accomplished by accepting bills in payment for new subscriptions. He said that only once before had a maturing bill carried a conversion privilege. With bills selling at present low yields he opposed adding an uncertain and indeterminate factor to future bill issues. He thought the whole market would be less healthy under such an arrangement. If it is done now when the market has no right to expect it, it will be always possible in the future and result in bills selling at a further minus yield. He said he would oppose it at least until he had heard the

other side.

Mr. Bell said that he was not worried about the mechanical difficulties but that he was worried about the announcement of a new cash issue totaling \$1,200,000,000.

Mr. Harrison thought the explanation that \$450 million is for maturing bills would take the sting out of that.

Mr. Morgenthau observed that the newspapers always carry the total of our expenditures but pay little attention to the total of our receipts.

Mr. Harrison responded that those concerned with the financing would understand the situation and there would be no adverse reaction. He thought it a little franker to give the total as \$1,200,000,000. He said that he was impressed with the argument advanced by the small banks in the Chicago district as given by Mr. Schaller.

Mr. Burgess said that the Federal Reserve System held \$15 million of the maturing bills. He said that the issue as a whole is pretty closely held among New York banks and brokers.

Mr. Eccles said that he was disposed to give holders of maturing bills exchange privilege and distinguished this unduly large amount of piled up maturities as a special item as differing from the ordinary \$50 million or \$100 million weekly maturity. He said that there was some expectancy of a conversion privilege (Mr. Burgess interposed to say that there was little such expectancy).

Mr. Eccles said the best argument against giving a conversion privilege is that the issue is held by a few large interests. He was not impressed with the statements about future uncertainty, and said that the best argument for conversion privilege is to avoid

giving the public exaggerated impressions of new cash requirements. He added that the people who get cash for their maturing bills have to turn right around anyway and buy new securities and pay a commission for doing so. He expressed himself as being rather for the conversion privilege.

Dr. Viner said that he thought the whole arrangement for rights and conversion privileges an illegitimate arrangement. It introduces the gambling or lottery element. It should not be done unless it is definitely contracted for in the original conversion. It distorts values and is unfair. Especially it should not be extended to bills. (The only consideration there should be is a price for short term money).

Mr. Eccles agreed that Dr. Viner was right as to the whole situation.

Mr. Fleming said that he agreed with Dr. Viner and that in fairness to bill holders generally there should be no conversion privilege.

Mr. Seay said that there was no market opinion in Richmond. Regardless of advantages to the Treasury, if any, he thought the arrangement undesirable. The return on bills now is dangerously low. To give them any further advantages would invite undesirable repercussions.

Mr. Burgess said that most of the points, pro and con, had already been made but he wanted to advance one additional consideration. The bills were originally sold clearly on the basis that there would be no conversion rights. The selling price shows this. There was almost a Treasury commitment on the point. Mr. Coolidge and

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Mr. Burgess have repeatedly intimated that there would be no rights. It is important in view of the program of bills for bonus money that no rights be given. Responsible people will hesitate to buy because of uncertainty. It is very important to keep the market on a straight-forward basis. One bank in New York has \$50 million of the bills. They would be given a handout of \$250 thousand on the basis of one half point resulting from the conversion privilege. The conversion would be a bonus to New York.

Mr. Harrison said there would be a real risk and a serious flare-back if this became known.

Mr. Burgess said that the newspapers would pick for their headline the largest figure or the \$1,800,000,000 total conversions and new money asked. He thought it made no difference how the split-up was arranged. The market is good. It needs no pampering. It would be well to avoid too bullish a factor. It is important to keep the market from going crazy.

Mr. Morgenthau said that he had heard enough to be convinced that there should be no conversion privilege for the maturing bills.

It was agreed then that there should be an offering of \$1,250,000,000 for cash, of which \$800 million will be new money and \$450 million will be for the purpose of taking care of maturing bills.

Attention was turned to the \$559 million Treasury notes maturing April 15th which are to be taken care of at the same time.

Mr. Morgenthau said that he was opposed to offering a long term 25 or 30 year 3% bond.

Mr. Burgess said that he would not argue hard on that point. He

thinks the long bond has merits. Perhaps this is not the right time to offer it. He reported that he had canvassed 19 banks and insurance companies and that 12 of them were for it and 7 against. The Bowery Savings Bank is interested in yield, not maturity. The Equitable Life said no. The Prudential Life is strong for a long bond. They said that they thought the Secretary of the Treasury should be on an uneasy seat and that it is important for him to put out something which should appeal to investors other than banks. The Metropolitan Life is interested in a long bond. New York Life said yes. Mutual Life said they like the idea in general. The Bank of Manhattan said no, the Bank of New York and Trust Company said that such a long bond would go. J. Parker Gilbert at Morgans said that he would like it and said that it would be sound finance. Rentschler at City Bank said it would be a long chance. The Discount Corp. said it would go. Devine said it would go. Salomon Bros. said it would go. Chase Bank thought it would be chancy. Guaranty said it was doubtful, so did Central Hanover. Bankers Trust said it would go.

Mr. Burgess thought there would be enough investment demand to take up a reasonable amount.

Mr. Morgenthau suggested that the holders of maturing notes ought to have a choice of a 5 year note and some security that would go with a bang for \$650 million.

Mr. Burgess thought the offer might be split, \$600 million short term and \$600 million long, picking up \$50 million on average allotments.

Various split-ups were suggested, the one proving most popular being \$750 million bonds and \$600 million notes.

Mr. Burgess said that there were 3 bond offerings worthy of consideration, (1) a 2 $\frac{3}{4}$ % bond maturing in 1948-50. This is a little longer than the 2 $\frac{1}{2}$ % offered in December. He thinks a 12-14 year bond will go. The rate on the notes should be cut thin forcing people into the bond, (2) a second possibility is a 2-7/8% bond for 17-20 years maturing in 1953-56 -- a little shorter than the outstanding 2-7/8%. This would go but banks would not like it so well but it would appeal to other investors. The 2-7/8% coupon is not popular. This point is not so sure fire as the shorter bond but would appeal to a wider group of investors, (3) the third suggestion is a 25-30 year 3% bond in which the Secretary had said he was not interested.

Mr. Burgess said the short bond will go best. From the point of view of the Treasury, there is much to be said for the 2-7/8%. It will fit the maturity sheet and get a wider distribution.

Mr. Haas and Mr. Bell said that the short bond was not uncomfortable from the standpoint of the maturity sheet.

Mr. Eccles asked if there was not an increase in the number of bonds being taken care of by general investors and Mr. Burgess replied that he thought so.

Mr. Harrison said that insurance companies are flush with money and must take whatever is offered.

Mr. Burgess suggested that we can look at the market the last minute and if we want a little richer offering we could pull the maturity down to 1952-55.

Mr. Harrison said that he was in favor of spreading out maturities and getting more investors interested. He would prefer the

tabooed 3% issue. After that he prefers a 2-7/8% bond maturing in 1953-56. He referred to that as a more statesmanlike offering.

Mr. Young said that he had been surprised to learn of the possibility of the long time bond. Everyone in Boston assures him that there is a possibility. His bond man favors a 25 year 3% bond, outside of that he prefers the 2-3/4%. He would get as much in dollars on such a bond as the public would take. He mentioned \$750 million.

Mr. Harrison expressed the opinion that we have not a sufficient appreciation of the amount of funds that are backed up for investment. One insurance company is accumulating them at the rate of \$1 million a day.

Mr. Schaller said that the 2-3/4% bond is most favored in his country but that they think that a 25 year bond at 3% would go. There is little favor for a 2-7/8%.

There was some discussion of the effect a 3% bond would have on U.S. Savings Bonds and Mr. Morgenthau said that the people whom the Treasury sought to attract/buy Savings Bonds were not the same people that would be attracted to the regular issue.

Mr. Eccles said that he opposed both the 3% and 2-7/8%. There is no question funds are piling up. He does not think the Government is justified at this time in putting out a long term 3%. A 2-3/4% is a very desirable bond for the Government to put out and 12-15 years a good period. No one can see into the future 25 or 30 years.

Mr. Burgess suggested that the bond be made more attractive than the note. He suggested a 4-1/2 year, 1-3/8% note and that a 5 year note would not quite go at 1-3/8%.

Mr. Eccles said he was for a 2-3/4% bond for as long maturity as the market will take.

Mr. Harrison said he thought there was some advantage in going up 1/8% in catering to the new investment demand. He does not mind discouraging bank investment if it can be replaced.

Mr. Morgenthau made the point that offering a 12-15 year bond at 2-3/4% now will show a distinct advance over the 10-12 year 2-3/4% bond offered last December. He thought this would show an improving credit position whereas advancing to 2-7/8% might be interpreted otherwise.

Mr. Seay remarked that all of the arguments seemed pointed toward the easiest way to float the present issue and not to concern themselves with future difficulties of the present Secretary of the Treasury or his successors. He said the logic is for a 2-3/4% bond and that this may help the market for the 2-7/8%. He added that we cannot expect a better time for the issuance of long term bonds.

Mr. Morgenthau asked him if his bank would buy some of the 3% issue and Mr. Seay replied that they operate as a system rather than as individual banks and that he would favor a greater accumulation of long term bonds by the system. He would not commit himself to the proposition that the Federal Reserve Bank of Richmond would buy any of the 3% if offered.

Mr. Morgenthau commented that if the Treasury had relied on the Federal Reserve Banks for the last two years we would not have sold any bonds. He asserted that the Treasury had looked to the future right along and considered the difficulties of the present Secretary and future Secretary and that it has been done without the help of the Federal Reserve System.

Mr. Seay admitted that the Reserve System had not bought bonds in the last two years and added that they had not been asked.

Mr. Morgenthau said that the Reserve Banks had been making money out of the bond market. Commercial banks are the only banks who have supported the Treasury and they have been able to make money out of the market.

Mr. Seay said that he thought if there were any way to get a wider distribution among investors it would be well worth doing.

Mr. Morgenthau said "and if they go off 2 or 3 points the Treasury is the only agency which will support the market and the bonds will be referred to as the Morgenthau 3's".

Dr. Viner's comment was "what if they do, it will be only press comment and political statement".

Mr. Harrison said he would like to spend an evening discussing with the Secretary the relationship of Federal Reserve System with the bond market and whether they do make money.

Mr. Young commented that "Governor Seay didn't mean that statement the way you took it."

Mr. Seay interposed to say "I am sure I didn't".

Mr. Young said that he had consistently voted on the Open Market Committee for one quarter of a million leeway with which to do whatever the Treasury wanted the committee to do in the matter of taking up issues which did not go with the public.

Mr. Morgenthau said that the fact remains that during the last 3 years while the Reserve System has been splendid in helping out on maturities of 5 years and under, the Treasury has taken care of everything above that.

Mr. Young said "more glory to you".

Mr. Morgenthau said, "I haven't said that outside of this room and I won't".

Mr. Young said that he had sat in many conferences with Governor Seay and that he had found it always to be his objective as well as that of other members of the committee to cooperate with the Treasury -- partly perhaps for selfish reasons.

Mr. Morgenthau said that he would forget that any such comments had been included in today's discussion.

Mr. Fleming said that the banks in his district were all for a 12-15 year $2\frac{3}{4}\%$ bond. He said he talked to 2 insurance companies and 1 opposed a long maturity and the other was very much for it.

Mr. Burgess said he had nothing to add but that he thought the point raised by Mr. Morgenthau was important with respect to a $2\frac{3}{4}\%$ bond.

Dr. Viner said he had a "crank" argument against long term securities in that it is gypping the public. Rates will not be as low as they now are for the next 10 years. The trend is toward increased taxation on individuals and estates and rates are bound to go up. The Treasury may be embarrassed later by having overpriced securities.

Mr. Morgenthau said as the Social Security Act is written we should not go beyond 1960.

Mr. Harrison said if the Social Security Act remains as written it doesn't matter much what we do.

Mr. Morgenthau said that he wanted to tell the press tomorrow two things -- that the maturing bills would get no conversion

privilege, and that the amount of cash to be asked will be \$1,250,000,000, of which \$800 million is new money. He favors feeding the information out to the press gradually, letting the market adjust itself and give him a better chance to judge the market.

Those present saw little difference whether the total was \$1,300,000,000, \$1,250,000,000 or \$1,300,000,000.

Mr. Schaller suggested the possibility of letting the small banks buy a bigger percentage of their capital and surplus.

There was some suggestion of basing the percentage on their total assets but Mr. Burgess was against the changing of the rules.

Mr. Morgenthau referred to the fact that this is the last meeting of this particular Open Market group, and as such thanked them for their excellent cooperation and their good advice for the past two years. He commented that "we had never gone out of the room unless together" and said that he appreciates the help given through very difficult times.

Mr. Young replied that it had been a great privilege to serve and Mr. Schaller said that the privilege had been theirs and Mr. Harrison said that they had been only too glad to be of what service they could.

Burgess

5y $1\frac{1}{2}$ / $\frac{1}{2}$ HA

500

48-51

$2\frac{3}{4}$

750

1 HA

Pope

notes

$1\frac{1}{2}$ 5 yr

$1\frac{3}{8}$ possible

25 yr. 3%

$\frac{3}{4}$ billion

$2\frac{3}{4}$ could sell

equally ✓

Hurdley Mills

Bands } equal
notes }

Seyi $1\frac{1}{2}$

premium sell $\frac{1}{2}$ pt

Band

48-50
48-51

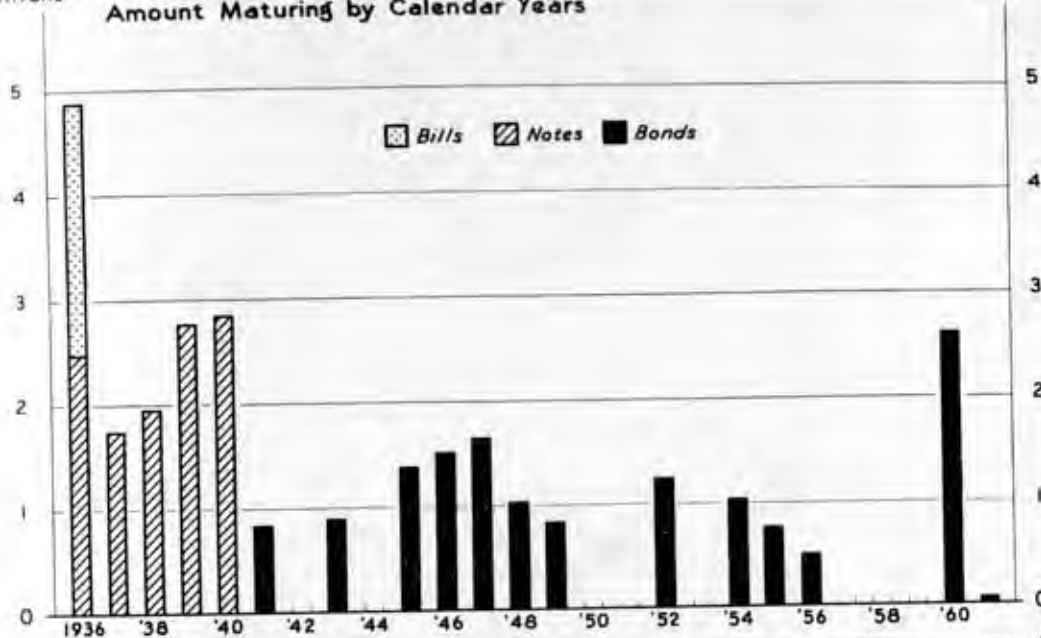
INTEREST BEARING PUBLIC DEBT - JAN. 31, 1936

Daily Treasury Statement Basis

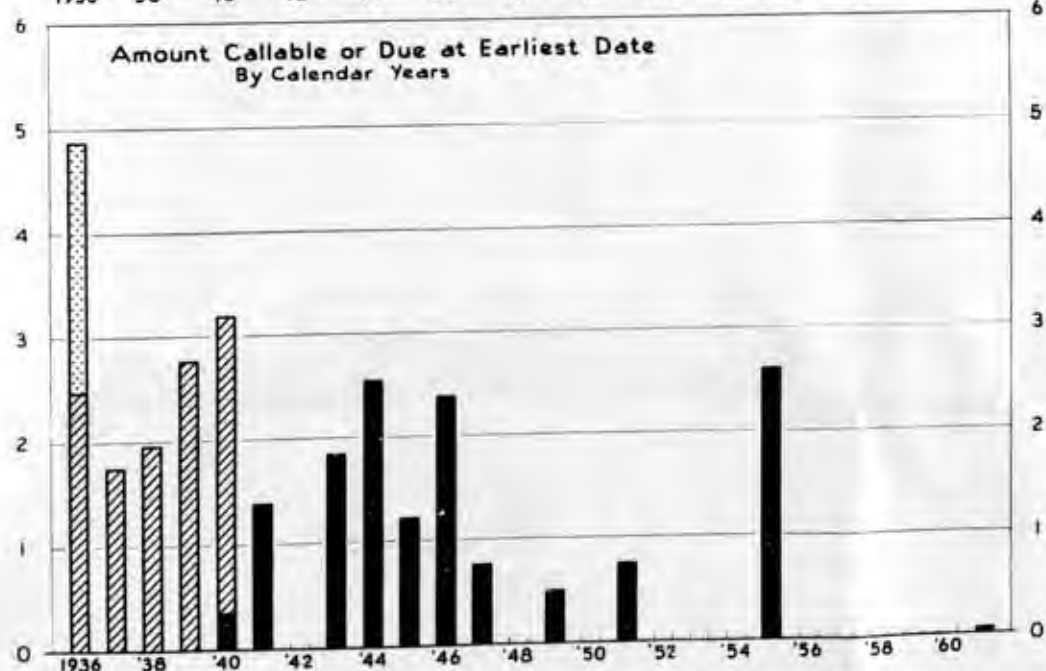
DOLLARS
Billions

DOLLARS
Billions

Amount Maturing by Calendar Years



Amount Callable or Due at Earliest Date By Calendar Years



Excludes: (1) Postal Savings Bonds, (2) U.S. Savings Bonds, (3) Special obligations issued to retirement funds and Federal agencies

1 1/2 % Note due 12/15/40 1.33

1 1/2 % Note due 3/15/41 @ 1.35 100 23/32
1.40 100 15/32
1.45 100 8/32

4 1/4 % 1947-52 2.55
3 1/8 % 1946-49 2.57
3 1/8 % 1949-52 2.70
3 % 1951-55 2.72
2 7/8 % 1955-60 2.81

2 3/4 % Bond 3/15/1948-51 @ 2.55 102 2/32
2.60 101 17/32
2.65 101 1/32
2.70 100 10/32

Treasury Bills paid off with cash

PLAN I

Balance March 1st		\$ 1,011 M
Receipts in March:		
Income tax	\$ 407 M	
All other	<u>224</u>	<u>631</u>
		\$ 1,642 M
Sale of Treasury obligations (cash)		<u>1,250</u> ✓
Available funds		\$ 2,892 M
Expenditures (regular and emergency)	\$ 597 M	
Expenditures - Treasury bills redeemed	<u>452</u>	<u>1,049</u>
Balance March 31st		<u><u>\$ 1,843 M</u></u>
Debt maturities:		
March 16 - Treasury bills	\$ 452 M	
April 15 - Treasury notes		<u>559</u>
		\$ 1,011 M
Treasury bills to be paid in cash	\$ 452 M	
Treasury notes to be exchanged	<u>559</u>	<u><u>1,011</u></u>

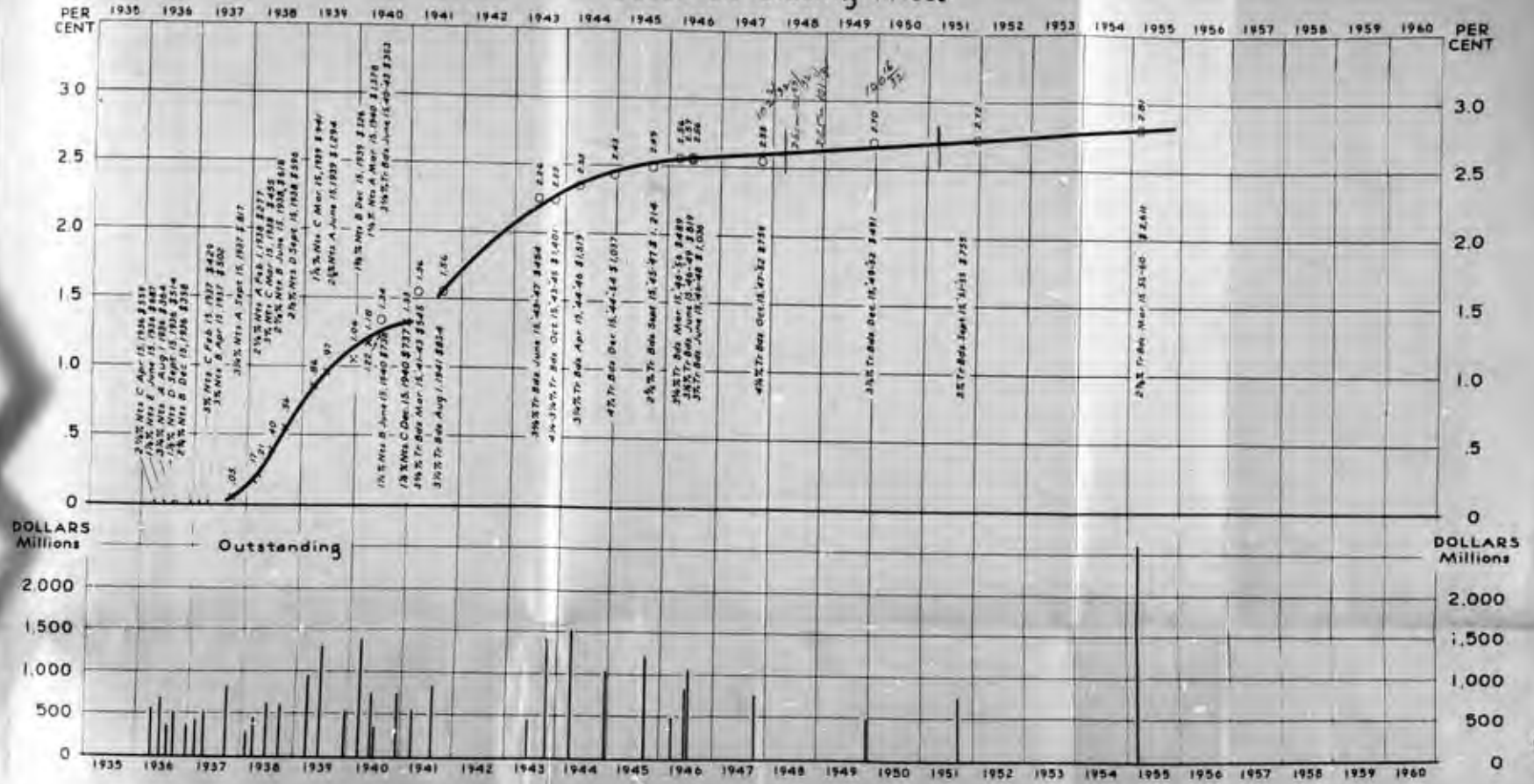
Accounts and Deposits
February 26, 1936

1250
559

1,809

YIELDS OF TREASURY BONDS, NOTES AND CERTIFICATES, FEB. 28, 1936

Based on Closing Prices



February 27, 1936

There will be a meeting at the White House tonight at 8:30 to discuss new taxes. The President wanted a meeting next week, but HM, Jr. urged him to have the conference tonight and then at his press conference tomorrow morning he might make some statement on what he is going to recommend on tax legislation at this session of Congress.

HM, Jr. had lunch with the President today. The President told him that if they come to a decision tonight, he, the President, will say something tomorrow morning. HM, Jr.'s idea was to have him make the announcement at this time because of the Treasury's announcement on Saturday of the terms of its March 15th financing, and if the tax plans are going to be a shock to the bond market it will be over by the time the Treasury announcement is made and we will know how the bond market reacts.

After lunch Steve Early came in while the President and HM, Jr. were chatting and reviewing the various things they had talked about and HM, Jr. was just about to say that "Friday morning, at your press conference," when the President sort of wiggled his eyes and and intimated he did not want him to say anything in front of Steve Early. This is HM, Jr.'s impression of the incident, "I could not tell whether he did not want me to talk because he did not want Steve Early to know that he was going to make some announcement about taxes on Friday morning or that the President did not want Steve Early to know that it was my suggestion and not his own, but the President will spill what happened at the meeting tonight and if it is a shock to the bond market we will know it before we announce our financing on Monday."

White House

Jul 27, 1938⁸²

Improving the Tax Structure

✓

We should keep constantly before us the purpose to make our general tax structure a sounder and more equitable one. The present need for additional revenues should be used to further this purpose. One major defect in our tax structure is in that part effecting corporations. Present corporate taxes and ways to improve them have been the subject of extended study by the Treasury Department. These studies have now reached a point warranting the consideration of basic changes in corporate taxation, changes that will constitute fundamental and permanent improvements and result in a fairer distribution of the tax load as between corporate profits withheld from stockholders and those distributed to them as earned.

In actual operation, the existing corporate taxes render incorporation of small businesses difficult or impossible, and encourages the accumulation of surpluses in corporations owned by taxpayers with large incomes. This disparity of advantage results from the fact that the present tax rates on corporate income are disproportionate both to the higher rates on the larger individual incomes and to the lower rates on the smaller individual incomes.

Since stockholders are the beneficial owners of both distributed and undistributed corporate income, the aim, as a matter of fundamental equity, should be to seek equality of tax burden on corporate income whether distributed or withheld from stockholders. As the law now stands, our corporate taxes dip too deeply into the share of corporate earnings going to stockholders with small incomes; while the share of stockholders with large incomes escapes the surtaxes unless corporate earnings are distributed to them. The method of evading surtaxes thus afforded constitutes a problem as old as the income tax law itself,

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and repeated attempts by the Congress to prevent this form of evasion have not been successful. Indeed, the evil has been a growing one. It has now reached disturbing proportions from the standpoint of the inequality it represents and of its effect on the Federal revenues. Thus during the year 1936, some \$ of corporate profits, which, as earned, should be added to the incomes of stockholders and there taxed as other personal income, will, as matters now stand, be withheld from stockholders by those in control of corporations and the Government will, in one year alone be thus deprived of revenues amounting to over \$.

We should seek equality of taxation on all income from whatever source derived, and limits should be set to the power of the management of corporations so greatly to influence the sources of revenue currently available to the Federal Government.

Accordingly I recommend that the Congress repeal the present corporate income tax, the capital stock tax, the related excess profits tax and the present exemption of dividends from the normal tax on individual incomes. In lieu of these provisions, I recommend that corporate profits which are not distributed as earned be taxed at rates graduated above and below 53%.

These rates for this tax are recommended because they will yield approximately the same revenue as would be yielded if the corporate profits were distributed and taxed in the hands of stockholders.

In fixing the amount of undistributed corporate profits to be subject to the proposed tax, the full amount of dividends received by corporations should be included. Equitable provision should be made

for all proper deductions, and for obligations under existing contracts to retain earnings. Consideration should, of course, be given to the problem of special treatment of any exceptional class of corporations.

The tax recommended would not apply to existing corporate capital or surpluses.

White House Conference

Feb. 27, 1936

8.30 P.M.

February 27, 1936

MATERIAL FOR TAX MESSAGE

In my last budget message, I directed attention to my statement in the budget summation of September 30, 1935, that, if attacks on processing taxes were sustained, the country would have to face the problem of financing existing contracts for benefit payments out of some form of new taxes. I said also that additional charges upon the Treasury, for which provision was not already made in the budget, should be accompanied by additional taxes to cover them. In pursuance of this fixed budget policy, I am impelled by events which have taken place since those statements were made to recommend legislation to provide additional Federal revenues.

I recommend that in framing tax legislation the Congress consider: first, imposing suitable excise taxes on the processing of farm products; second, taking for public use a substantial part of any unjust enrichment resulting from the return or non-payment of Federal excises; and, third, making certain changes in our general tax laws which will produce substantial revenues, and, at the same time, greatly improve our general tax structure.

Processing Taxes \$350,000,000

As one source of revenue to meet Treasury requirements, I recommend an excise tax on the processing of certain agricultural products. As matters now stand, the total annual amount obtained from this tax should be substantially less than that from similar levies in 1934 and 1935; and, in order further to reduce the tax affecting particular commodities, the number of commodities so taxed should be increased. This recommendation of lower rates and the broadening of this source of revenue is made in the interest of a relatively

low tax per unit and of maintaining present competitive relationships among the producers, processors and consumers of the various products.

Our experience with taxes derived from the processing of agricultural products indicates that the tax was borne almost wholly by the consumers in the case of some commodities, such as cotton and wheat, and that in the case of others, such as hogs, the tax was in effect deducted from the market price paid to producers. Lower rates of tax on the processing of more commodities will reduce the contribution to Federal revenues made by those whose budgets were chiefly affected by commodities previously taxed and also by the producers of those products.

There is available to the Congress the experience of the Treasury Department and the Department of Agriculture with the previous tax. This may be helpful in fixing the lower rates, in enlarging the group of commodities the processing of which is to be taxed, and in making such adjustments and special provisions as fairness may require.

Windfall Income \$150,000,000

Processing taxes, impounded by the lower courts and amounting to approximately \$180,000,000, have been ordered returned to the processors. In addition there are other unpaid processing taxes, which can not now be collected, approximating \$40,000,000. The burden of these two classes of uncollected taxes, equally with that of the processing taxes actually paid, was, in the main, passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21(d) of the Agricultural Adjustment Act that, in the event

of the invalidation of the processing taxes, only those processors who had borne the burden of these taxes should be permitted to receive refunds. Manifestly, the return of the impounded funds and the failure to pay taxes that were passed on result in unjust enrichment, contrary to the spirit of that enactment. In all fairness, neither the processors nor their distributors should be in a better position than had this tax liability never entered into their calculations.

Unfortunately, it is not possible to return to each individual consumer the tax which was passed on to him in the prices he paid, or return to each individual producer the amount which was taken out of the prices he received; but by suitable legislation much of this can and should be added to the Federal revenues for the benefit of the country as a whole.

I, therefore, recommend that the Congress enact appropriate legislation to tax this windfall income. This legislation might well be modeled after the war profits tax of February 24, 1919, which taxed at very high rates net income received from Government contracts executed during the War. Considerations of what is fair and in the public interest, which prompted the Congress to tax heavily the large war profits resulting from Government contracts, equally justify the imposition of the tax now proposed.

I recommend that, for similar reasons, the Congress consider also the general application of this principle to the unjust enrichment resulting from the return or non-payment of any Federal excise which has been passed on by the taxpayer.

Improving the Tax Structure

The present necessity to provide additional revenues should be used further to improve the general tax structure by enactments to reduce tax avoidance and otherwise to equalize the tax burden. I recommend certain changes in existing tax laws which will accomplish this two-fold purpose. None of the changes recommended can be passed on in the form of higher prices to consumers or lower wages to workers. None reduces corporate profits. Each of them is designed either to make some of our existing laws more effective or to remedy some weakness or unfairness in them. Finally, the suggestions that I shall outline possess the fundamental merit of reducing the relative burden of Federal taxes on consumption, the area of taxation to which States and local governments have been increasingly turning.

Withheld Earnings Tax. Ever since the adoption of Federal ¹ 150,000,000 surtaxes on personal incomes, their effective and uniform application to personal incomes has been circumvented by the use of the corporate form of business organization. The Congress has repeatedly attempted to stop the evasion of surtaxes by this device in a series of enactments beginning in 1915 and extending to Sections 102 and 551 of the Revenue Act of 1934. But these measures have not been effective. During the year 1936 some \$5,000,000,000 of corporate profits, which, as earned, should be added to the incomes of stockholders and there taxed as other personal income, will, as matters now stand, be withheld from stockholders by those in control of corporations. The Government will, in one year along, be thus deprived of surtaxes amounting to \$800,000,000. Limits must be set to the power of

the management of such corporations so greatly to influence the sources of revenue available to the Federal Government.

Such withholding of earnings from stockholders is preventing a uniform application of the tax on personal incomes. In practical operation, it is depriving stockholders of an opportunity to decide whether they wish their funds to remain in these corporations or to be put to other uses, and it is suggesting corporate surpluses already of a magnitude challenging public attention.

During the past few decades, we have witnessed the rapid growth of corporations and a corresponding decline of partnership and individual enterprises. In this struggle of small business to survive, the Government has not been neutral because this trend has been materially accelerated by the operation of our tax laws. These laws discriminate against business men who conduct their enterprises as individuals in favor of those who do so under the corporate form. In the latter case, profits are taxable only at the relatively low corporate rates, whereas, in the former case, profits are subject to normal taxes and to surtaxes also. It is true that corporate earnings when distributed are subject to the surtax in the hands of shareholders. But the fact is that such stupendous sums of earnings as I have indicated are yearly withheld from distribution to stockholders and they are either never subject to the surtax or such tax liability is long postponed.

It is the automatic reinvestment of corporate earnings withheld from stockholders that has made possible the expansion of corporate enterprises and the rapid displacement of individual proprietors

and small businesses by corporations of undue size. Normal corporate development is, of course, desirable. Healthy corporate life requires growth and constant adaptation to the changing industrial and social scene. Nevertheless, in a democratic society, real control over the investment policies of corporations should rest with the shareholder-owners.

Fiscal necessity, no less than desirable public policy, requires equal taxation of all corporate profits, whether reinvested in the business or distributed to stockholders. In addition to the present corporation income tax, a tax at the rate of 25 per cent on that portion of the net income of corporations which is not distributed to stockholders is, under existing income tax rates, required to provide equality of taxation of all corporate earnings and a uniform application of surtaxes. I recommend the enactment of this tax. Consideration will, of course, need to be given to the deductions which should be allowed and to the special treatment which should be accorded any exceptional class of corporations.

Such a tax will not retard but stimulate enterprise and profits. Corporations distributing their profits will pay no added tax. Through offering subscription privileges to stockholders, earnings can be reinvested in an expanding business if their real owners thus consent; and such earnings will be invested in those enterprises which pass the scrutiny of an informed investing public.

Unearned Income Tax. I recommend the imposition of a ^{\$ 492,000,000} special surtax of 10 per cent on unearned income received by individuals, with the retention of the present provision of the law that the first \$3,000 of each individual's income be regarded as earned in any case. Our present income tax law makes only a small distinction between income that is earned currently by personal effort and income received by way of dividends, interest, rents, etc. The effect of this change would be to supplement this relatively small difference in our present treatment of unearned as against earned income.

Equalizing the Exemption from Estate Taxes. The effect of ^{\$ 53,000,000} the present specific exemption of \$40,000 allowed in computing estate taxes is to give much greater relief to the larger estates which are subject to higher rates than to smaller estates. I recommend for your consideration, therefore, that this exemption be graduated with a view to making it more nearly equal in value for all sizes of estates. It might well be reduced until estates of \$80,000 are reached and thereafter eliminated.

Equalizing the Benefits of Personal Exemptions. I recom- ^{\$ 108,000,000} mend that deductions for personal exemptions and credits for dependents under our income tax law be restricted to normal tax liability and not allowed for surtax purposes. The law so provided prior to the Revenue Act of 1934. When these exemptions and credits are allowed for the purpose of determining liability for surtaxes, their effect is to grant much greater relief to

recipients of large incomes subject to the higher surtax rates than to those of small incomes. When the exemptions and credits are allowable only in connection with normal tax liability, their value is the same for all taxpayers.

Normal Tax on Dividends. Dividends received by individuals ^{over} 90,000,000 are now wholly exempt from the 4 per cent normal tax applicable to wages, salaries, interest, and other items of individual incomes. The original justification for this exemption was apparently that stockholders in effect pay the normal tax on dividends through the corporation income tax, but our tax law has long imposed a higher rate on corporations than the normal rate on individuals, presumably on the theory that the corporation income tax is essentially a tax on the privilege of doing business in the corporate form. The present need for additional revenue seems to justify the extension of this principle by subjecting dividends to the normal tax.

With the foregoing changes in our tax laws, we shall have a tax structure which will provide the revenues that sound public financing and dependable budgetary practices require, and a tax structure fairer because more widely and more uniformly effective, and sounder because more in keeping with the present and future well-being of the nation.

Saturday
February 29, 1936

Dudley
Mills: Good morning, Mr. Secretary

HM, Jr: Good morning

M: Mr. Ritt is also on the line and wishes to say good morning.

R: Good morning

HM, Jr: Good morning, Mr. Mills.

M: Mr. Secretary -

HM, Jr: Yes

M: We think you did absolutely correct in not giving any rights to the March - to the March Treasury Bill.

HM, Jr: Right

M: And it helped the market a great deal -

HM, Jr: Good

M: It relieved the uncertainty -

HM, Jr: Good

M: And people know just - they know now exactly what to expect -

HM, Jr: Good

M: Of course, there were some people who were disappointed.

HM, Jr: Yes

M: But, altogether the good of the market in the future - where you can put out Treasury bills now due in September or something like that -

HM, Jr: I see.

M: - is worth more than this temporary disappointment on the part of a few people.

HM, Jr: Yes

M: Now, I will be frank in saying that a billion and a quarter cash -

HM,Jr: Yes

M: - surprised the market a little.

HM,Jr: It was a little bit of a shock -

HM,Jr: Yes

M: Now, a billion and a quarter cash and five hundred and fifty million exchanges -

HM,Jr: Yes

M: - making a total new offering of a billion eight -

HM,Jr: Right

M: - is a very large offering.

HM,Jr: Yes

M: And the market is - well, it's just the conservative people in it were just a little bit - well, that's a large amount of money. I don't think there's any question - it'll go over very very well.

HM,Jr: Yes

M: Now, I think six hundred and fifty million each would give a billion three -

HM,Jr: Well, we only asked for a billion and a quarter.

M: A billion and a quarter? Well then, it'll have to be divided up, six hundred, seven hundred, or whatever way you want it.

HM,Jr: Well, which way would you say?

M: Well, the market for bonds is very good, sir.

HM,Jr: Yes

M: But I will say this in the conservative side -

HM,Jr: Yes

M: That the holders of the two and seven-eighths of thirty-six were all short invested.

HM,Jr: Yes

M: The people that bought the Treasury Bills were all short invested.

HM, Jr: Yes

M: That's a billion dollars or the billion eight -

HM, Jr: Yes

M: - is now invested in short

HM, Jr: Yes

M: So I personally would favor the five year.

HM, Jr: Yes

M: Now that - that's my own personal reaction, because of the large amount that's held for three years or for six months.

HM, Jr: Well, the April notes would give them their choice.

M: That's right - that's right.

HM, Jr: But how would you recommend dividing up the billion and a quarter as between bonds and notes?

M: Well, I'd make it equal.

HM, Jr: You'd make it equal?

M: That would be my own opinion, yes.

HM, Jr: I see.

M: Now, just one thing, I think the five year one and a half and a twelve-fourteen year bond, a fifty-eight sixty and a five year one and a half. Now I wouldn't - I would not get out three issues, because one of them will always be neglected.

HM, Jr: Yes

M: Now on the five year note Mr. Ritt had something he wanted to enlarge on that and I think he'll come on the phone right now, he's been listening.

HM, Jr: Please -

R: In the nineteen forty maturities you have less maturities

than the billion seven hundred million now -

HM,Jr: Yes

R: And you have callable of the three and three-eighths three hundred and fifty-three million making approximately two billion which may mature in that year.

HM,Jr: In nineteen forty?

R: Yes - in nineteen forty-one you just have the three and a quarter of the forty-one.

HM,Jr: - three and a -

R: Three and a quarter of the nineteen -

HM,Jr: Yes, the only ones for the fixed maturity.

R: And then you have the optional date -

HM,Jr: Yes

R: - on the three and three-eighths of forty-one three.

HM,Jr: That's right.

R: So, it seems to me that in spreading the amount which matures that there is more open room in nineteen forty-one rather than getting too much in nineteen forty.

HM,Jr: Well, now, let me think. Well, a five year note would fall in forty-one.

R: A five - therefore a five year one and a half -

HM,Jr: Yes

R: I think would be preferable to a four and a half year one and three-eighths for that reason.

HM,Jr: Well, I don't think there's an awful lot of argument about that.

R: Yes

HM,Jr: The only thing is whether a five year one and a half is a little bit too sweet.

R: Well, it is at that. But on the other hand a five year one and three-eighths is rather close.

HM,Jr: Yes, yes

R: I believe it would take a - it would take a very small premium of five, maybe five to eight thirty-seconds, something like that -

HM,Jr: How would you divide the billion and a quarter as to bonds and notes?

R: Well, I agree with Mr. Mills that the maturing certificates and Treasury Bills - I understand that are short holders.

HM,Jr: Yes

R: On the other hand the market is very good for bonds.

HM,Jr: It's been suggested by a number of people that we make it seven hundred and fifty bonds and five hundred notes -

R: Yes

HM,Jr: Do you think that's too strong on the bonds?

R: I would say if it worked in with the plans of the Treasury, no.

HM,Jr: Well, we -

R: The more conservative thing to do would be to divide it half and half.

HM,Jr: It would be?

R: That would be my impression, but I think you could do seven fifty to five hundred if it worked in with your plans better.

HM,Jr: Yes - but the more conservative we make it - well, let's see - it's divided as near equally as possible.

R: Yes and then you'd treat both classes at best as equally.

HM,Jr: I see. Now, what do you think a premium would be on a five year one and a half?

R: A five year one and a half?

HM,Jr: What do you suppose it would sell at?

R: Well, I should think it would certainly sell at a half a point premium to start with.

M: I think - this is Mr. Mills again -

HM,Jr: Yes

M: I think one and a half at - forty now quoted at twenty-five twenty-seven -

HM,Jr: Yes

M: I think they'll drop around twenty on Monday.

HM,Jr: Yes

M: And the new bonds with the new notes would stay around fourteen-sixteen and then with the weight of the new offering they won't - I don't think they'll sell much above twelve fourteen thirty-seconds.

HM,Jr: Yes, well, now - on the bonds you people suggest forty-eight?

M: Fifty-eight sixty -

HM,Jr: What?

M: Fifty-eight sixty - forty-eight sixty -

HM,Jr: No

M: Forty-eight fifty (Laughter)

HM,Jr: You're talking another generation.

M: Yes (Laughter)

HM,Jr: Forty-eight ?

M: Forty-eight fifty.

HM,Jr: Forty-eight fifty - wouldn't fifty-one be just as good?

M: Yes - they're optional dates - forty-eight fifty-one would be perfectly all right.

HM,Jr: Because, fifty-one from our maturities is a little bit better.

M: Yes

HM,Jr: - would set the picture a little bit better.

M: It wouldn't make any difference.

HM,Jr: It wouldn't make any difference?

M: Not a bit.

HM,Jr: What do - how much premium do you think that would have?

M: Well, that's very difficult to answer.

HM,Jr: I see.

M: I should estimate it would go to around - well just about the same it would be a one and a half year note around twelve fourteen to begin with.

HM,Jr: Yes

M: It all depends upon the weight of the offering in the market. This is a very large cash offering. It's the largest cash offering the Treasury has offered in - oh, about two years.

HM,Jr: Really? Well, then -

M: A billion dollars is the most that's ever been raised at one time before.

HM,Jr: But as between a forty-eight fifty and forty-eight fifty-one you don't care?

M: No - makes no difference.

HM,Jr: What?

M: No difference

HM,Jr: No difference? And you feel that it would be crowding it a little bit to make it seven-fifty bonds?

M: Well, - no, I don't think so, but it's - it's really on the side of - of liberality.

HM,Jr: Pardon me? - I didn't get that.

M: It's a little bit strong.

HM,Jr: A little bit strong?

M: Seven hundred and fifty million bonds is a lot of bonds with - with a five hundred and fifty million on top of it.

EM,Jr: Yes - yes

M: Of course if you don't want no more bond issues for two or three months it gives the market plenty of time to

HM, Jr: Yes

M: Why it's all right.

HM, Jr: I see. Well, of course I can't make any promises.

M: No, no -

HM, Jr: Let me ask you this, what sort of reception did the President's announcement on taxes get? - from the people - ?

M: Well, that's difficult because we're not very good political judges (Laughter)

HM, Jr: Well -

M: It - I think it was a very courageous thing for him to do -

HM, Jr: Yes

M: To come out and demand a tax and of course the uncertainty is what form they're going to take.

HM, Jr: I see.

M: Because a billion dollars in taxes is a pretty shaky - a pretty big amount -

HM, Jr: Yes

M: No one knows what form that Congress will give to it.

HM, Jr: Yes

M: But he was very courageous to come out and it helped the Government Bond market tremendously -

HM, Jr: It did?

M: - to come out like that on the taxes.

HM, Jr: Well now, let me ask you another - are there any sour spots in the bond market? - or the - ?

M: None at all

HM, Jr: Did that issue for the Consolidated Gas, did that - ?

M: Oh, yes

HM, Jr: What?

M: Oh, they could have sold seven hundred million of those.

HM, Jr: They could have?

M: They said they were just like a Government issue. They could have sold any amount of them. They went to a one and a half point premium immediately.

HM, Jr: Now there are no issues which are sticky are there, up there?

M: No

HM, Jr: What?

M: No, the market

HM, Jr: Well - We'll sit around here for a couple of more hours and we'll make up our minds. Is there anything else you can add?

M: (Laughter)

R: There's just one thing I'd like to say. There's been some talk in the New York market that - of the possibility of a two and seven-eighths per cent bond -

HM, Jr: Yes

R: - with maturity at fifty-three to fifty-five.

HM, Jr: Yes

R: Well, my thought on that was that it might just open up a little adverse comment because you would be shortening in maturity -

HM, Jr: Yes

R: - under the outstanding two and seven-eighths -

HM, Jr: Yes

R: - with a two and seven-eighths coupon. I think retrogression whereas taking a two and three-quarter coupon and presenting the maturity-

HM, Jr: Yes

R: - it looks better from the Treasury standpoint.

HM,Jr: Oh, I think you're absolutely right.

R: Yes

HM,Jr: I think you're absolutely right.

R: But that talk has been around.

HM,Jr: Yes, well, I mean, it's perfectly obvious that we can get out a two and three-quarter and extend it three years - the length over December.

R: Yes

HM,Jr: That reflects an improvement in the market.

R: Oh, yes

HM,Jr: If we take a two and seven-eighths and go back five years - shorten it up five years - it looks as though things were - the bond market wasn't as strong.

R: Yes, that's right.

HM,Jr: And I can't see that at all.

R: Yes (Laughter) I just wanted to mention that.

HM,Jr: Well, I'm very much obliged.

M: Thank you, sir.

HM,Jr: Goodbye - we hope everything goes well Monday.

M: Oh, it will, I'm sure it will. I'm sure it will.

HM,Jr: (Laughter) All right, goodbye.

M: Goodbye, sir.

HM,Jr: Goodbye.

Saturday
February 29, 1936

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Allan Pope: Hello, Mr. Secretary?

HM, Jr: Yes

P: Allan Pope talking -

HM, Jr: Good morning -

P: Good morning - you asked me to call you up some time before ten-thirty.

HM, Jr: I certainly did.

P: I don't see anything about the market very different from when I was talking with you - in fact it's a little bit stronger if anything.

HM, Jr: Yes

P: And in regard to the matter which I spoke to you about about the one and a half note - I still think that if you don't bring too many who you couldn't possibly bring one and three-eighths -

HM, Jr: You do?

P: - a little closer to the market, but ^{it's} always advisable to do, but in view of the demand I think you probably could get away with a sizeable amount.

HM, Jr: Well, now, when you say a one and three-eighths, do you mean a five year?

P: A five year, yes.

HM, Jr: Yes - Do you think, - ?

P: But a one and a half would be attractive and can be without question done for five years.

HM, Jr: Yes

P: A one and three-eighths can be done in the present yield on the december one and a half which are three months shorter thirty-two one hundredths will give you a little less than one and three-eighths.

HM, Jr: I see.

-2-

P: That's coming in pretty fairly close to the market.

HM,Jr: The one and three-eighths?

P: Yes

HM,Jr: Now -

P: As far as the long threes are concerned there's nothing to prevent at least
three quarters of a billion.

HM,Jr: What's that?

P: I said I don't see anything to prevent long threes -
twenty-five year threes from being - to the extent
of at least three quarters of a billion anyway -

HM,Jr: Is that right?

P: Yes

HM,Jr: You're going to stick by those long threes?

P: I don't think there's any doubt of it myself. I think
it's perfectly clear.

HM,Jr: I see.

P: I think two and seven-eighths (Clicking sound)

HM,Jr: Hello -

P: Hello - I think two and seven-eighths are a little less
attractive.

HM,Jr: I see.

P: The two and seven-eighths are the only issue that isn't
up at their high.

HM,Jr: Yes

P: - all the time.

HM,Jr: Yes

P: It's never been popular. I think the long three years
will be a different story.

HM,Jr: Well, if we didn't do a three, if we did a medium bond,
what would you say?

P: If you did an intermediate one?

HM, Jr: Yes

P: Well, the two and three quarters at a hundred and two offered a hundred and two five offered at a hundred and two seven - first movement -

HM, Jr: Yes

P: That's the ten years -

HM, Jr: Yes

P: If you go to fifteen years you've got - you've got a little question there -

HM, Jr: Yes

P: Because if you pay in ten years of course you've got to put a premium on them.

HM, Jr: Yes

P: Which

HM, Jr: Oh -

P: On account of this ruling of the Comptroller.

HM, Jr: Pay - how do you think a forty-eight fifty-one would go?

P: A forty-eight fifty-one?

HM, Jr: Two and three-quarters -

P: a two and three-quarters, you mean?

HM, Jr: Two and three-quarters.

P: Yes, Well, I think that could be done, probably.

HM, Jr: But you're not very enthusiastic?

P: Well, I - yes, I'm - I think that - I only feel about it this way that I think you can extend your time -

HM, Jr: Yes

P: - beyond the - the thirteen year period there why this is an opportune time to do it.

HM, Jr: Yes

P: That would be my feeling.

HM, Jr: Yes

P:

HM, Jr: Well, let me ask you this, you know we've got to raise a billion and a quarter - how would you divide that amount as between notes and bonds whatever the bonds are?

P: Well, I - I think that if you're going to go very long bonds -

HM, Jr: Yes

P: Or if you're to go intermediate it's a little different. I think with very long bonds you'd do well to stick within three quarters of a billion -

HM, Jr: Yes

P: But, I think if you're going to go with intermediate maturities -

HM, Jr: Yes

P: Twelve or thirteen years the first call date -

HM, Jr: Yes

P: Why I think you could split it even.

HM, Jr: Split it even? In other words you don't think we can sell as many of the intermediate as we can of the long?

P: No, I think you can sell a little more. I think you can sell a little more intermediate ones than you can the long.

HM, Jr: I don't think I quite understand.

P: Well, I mean if you're going to bring out a billion eight hundred million I would think the most you could do would be eight hundred million of very long bonds and a billion of the short notes.

HM, Jr: Yes

P: And if you're going to bring out intermediate ones - thirteen years - I think you could do a billion of each.

HM,Jr: But look, I don't - I don't quite follow you. We've got only - we're only going to offer a billion and a quarter.

P: A billion and a quarter?

HM,Jr: Well, that's what I announced - a billion and two hundred and fifty million for cash -

P: Yes

HM,Jr: Now, I'm talking now as a billion two hundred and fifty million - would you offer as between a note and an intermediate bond, I mean, how would you divide that? I mean, would you offer - ?

P:

HM,Jr: I know, but let's just forget that -

P: Yes, all right

HM,Jr: How would you divide the cash offering?

P: Well, the cash? Well, I think that you can - you can't really count that - that cash thing
you can count the turn-ins because the turn-ins are really either cash or because they'll sell them and get the cash.

HM,Jr: Well, but - but I've got to make up my mind this morning on the billion and a quarter, if I offer six hundred and twenty-five million of each or whether it's five and seven-fifty or just how I do it, you see?

P: Yes -

HM,Jr: And the turn-ins - the turn-ins -

P: to allow the maturing obligations to -

HM,Jr: have their choice.

P: - to take their choice.

HM,Jr: To take their choice.

P: Yes

HM,Jr: So I've got to make a decision on the billion and a quarter - how I divide that, you see?

P: Well, I'm sorry to be - to appear a bit stupid on this thing here now but my understanding of it is the total amount of obligations which will come out will be about a billion eight, is that right?

HM, Jr: A billion eight -

P: Yes - I think you've got to consider it on the basis of the whole rather than the amount for cash.

HM, Jr: The - that is true, but I - but in making up my mind the next hour or two I've got to announce as of the billion and a quarter so much will be for notes and so much will be for bonds.

P: Yes, well, then according to that - you've got to determine then how much of the eight hundred million will be for bonds.

HM, Jr: No, of the billion and a quarter.

P: Well, you've got - haven't you got to determine that for the eight hundred million too?

HM, Jr: Yes, but that's all part of it, you see?

P: Yes, that's what I mean.

HM, Jr: But I mean, I've got to say we going to - we are asking cash - a billion and a quarter of which "x" dollars will be for bonds and "x" dollars will be for notes. The two together making a billion and a quarter.

P: Well - if that's the case I'd just say that you could divide it equally.

HM, Jr: Equally?

P: Yes, sir

HM, Jr: That's what I wanted to know. I mean so that the offering would be six hundred and twenty-five for bonds and six hundred and twenty-five for notes and that the Aprils would have their choice of either.

P: Yes, well now, do I understand from your statement here now that your total offering - I want to be sure that I am not making any mistake -

HM, Jr: Please -

P: - your total offering this time will be one billion eight?

HM, Jr: That's right.

P: And when the total offering is one billion eight I think you've got to divide the one billion eight rather than the - just what's prepared.

HM, Jr: But I can't divide it because I can't tell the people what to do -

P: No

HM, Jr: - with their notes.

P: They'll have - well, I see what you mean, - well, I'd divide the equally, then.

HM, Jr: What?

P: I'd divide the notes equally between the bonds and the cash.

HM, Jr: You mean - the only choice I have is for - of the billion and a quarter which is the cash.

P: Yes

HM, Jr: I can say I will offer so much for bonds - so much will be for bonds and so much for notes -

P: Yes

HM, Jr: You see?

P: Yes

HM, Jr: Now, I can say there'll be five and seven fifty or six and a quarter and six and a quarter, see? Leaving it to the people -

P: You'd be safe in having half -

HM, Jr: Half?

P: Yes

HM, Jr: I see. Half of each?

P: Half of each -

HM, Jr: And as between a twelve fifteen and a twenty-five thirty you lean towards a twenty-five thirty, is that right, -?

P: A twenty-five thirty, yes -

HM, Jr: Well, that's all very helpful.

P:

HM, Jr: Now the bond market - there are no sour spots anywhere, no soft spots?

P: No, they're all strong.

HM, Jr: What's that?

P: Everything is strong.

HM, Jr: Everything is strong?

P: Yes

HM, Jr: Well, I'm very much obliged -

P: You're very welcome.

HM, Jr: Thank you.

P:

February 26, 1936.

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A group met in the home of Secretary Morgenthau at 8:30 P.M. to discuss taxation. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
Herman Oliphant, General Counsel, Treasury Department,
Geo. C. Haas, Bureau of Research & Statistics,
D.W. Bell, Director, Bureau of the Budget,
Herbert E. Gaston, Assistant to the Secretary,
Dr. Viner,
Roswell Magill,
C.B. Upham, Assistant to the Secretary.

Mr. Morgenthau made a preliminary statement to the effect that he wanted to be sure that the tax recommendations made at the White House conference with leaders from the Hill tomorrow night have been well considered. He stated that some doubts had arisen in his own mind with respect to the proposal for a tax on the undistributed earnings of corporations and that he would like to have the group discuss in seminar fashion that tax in particular.

Mr. Oliphant explained that the theory upon which the tax was proposed was that corporation earnings should yield the same revenue whether distributed or undistributed and that the rate of 25% was fixed in accordance with that objective.

Speaking of the basis upon which the rate had been calculated, he referred to the fact that earnings of businesses operated by individuals or partnerships are subject to surtax. The estimated amount of undistributed earnings for the year is \$3 billion. \$700 million of this would go to individuals who pay no surtax and so no revenue would be derived from it. \$2,300,000,000 goes to persons in the higher brackets. If distributed this would yield a revenue

of \$800 million.

\$3 billion represents withholding of about 30% of corporation earnings. 25% of 30% is 7%, or in other words the proposed tax will be about 7% of total corporation earnings. The average income tax on corporations at present is 15%. Add the present 15% to the proposed 7% and you get 22%. It was observed that the English corporation income tax is 22½%. The proposed tax was described as an extension of the present law with respect to personal holding companies, but not so drastic.

Mr. Morgenthau said that Governor Eccles is interested in the tax from the standpoint of credit control and favors it.

Mr. Morgenthau wondered if big business, as represented particularly by the U.S. Chamber of Commerce, would not start a vigorous attack on the proposal as soon as it is brought into the open. He suggested certain individual enterprises such as the Scripps Howard chain of papers which would require exemption because of special reasons. As another organization likely to be opposed to the tax, Mr. Haas suggested that the proper basis for replying to any such attack would be talk of tax equality as an objective.

Mr. Oliphant added that we would face the same attack with any proposal that would yield any revenue and that would be acceptable to the Ways & Means Committee. Mr. Oliphant added that if we have to fight we might as well fight the people who are our enemies anyway.

Mr. Magill said that the relationship of the Department to the Ways & Means and Finance Committees was important. He was of the opinion that attacks on the proposal might be anticipated to some

extent by the President's message and guarded against.

Mr. Morgenthau said that the President and he were determined to have a tax bill if Congress is to be kept here until after election. He said the President wants 3 things, (1) a revenue of \$500 million from some kind of sugar coated processing tax on an extended number of commodities, (2) \$125 million this year for the bonus, and (3) \$500 million over a 3 year period to make up the amount which we are in the hold this fiscal year on the processing tax, to be raised one third each year and then stopped.

Mr. Oliphant gave a list of possible proposals: 1 - a processing tax on a reduced basis, 2 - a windfall tax to reclaim income unjustly enriching persons through operation of the Supreme Court veto of the AAA Act, 3 - a tax on withheld corporation earnings, 4 - a special 10% surtax on all unearned income, 5 - a whittling down of the exemptions on the estate tax, 6 - a restriction of the exemptions for dependents to the normal tax, 7 - application of the normal income tax to corporate dividends.

Dr. Viner thought 5 and 6 the most desirable.

Mr. Oliphant said that 6 would start the LaFollette fight for an increased tax in the lower brackets.

Dr. Viner said that the rich and the poor are overtaxed, the middle class getting off easy. He remarked that the Ways & Means Committee had refused some of these proposals before.

Mr. Magill said that he was interested in the exceptions to the proposed tax and would like to see the draft of the bill.

Mr. Oliphant read excerpts from the bill including a number of exemptions, after which Mr. Magill suggested that some percentage

-4-

of earnings less than 10% might be exempted as^a reserve and that there might also be some exemption for a Sinking Fund.

Mr. Haas suggested that banks and fiduciary companies would be exempt from the bill and that other corporations could go out and get capital if they needed it.

Mr. Magill said he did not think the proposal was bad and that he was not shocked at it if it was for the future and not retro-active. He said there would be an outcry, of course. He said two considerations are necessary to be taken into account, (1) doing what is equitable and (2) getting \$500 million with the least possible wailing. He agreed that the suggestions of Dr. Viner would be a move in the direction of equitability. He referred to the fact that whereas we used to get a major portion of our income from income taxes it comes more largely now from sales taxes.

Mr. Magill suggested that corporations be given up until March 15 to declare dividends and Dr. Viner was in favor of giving them 15 months notice unless there is some emergency need. He would have the tax apply for instance on March 15, 1937, to the earnings for the year 1935 which were not distributed in 1936.

Mr. Oliphant thought the Government would lose quite a bit from such an arrangement as a result of insolvencies.

Mr. Morgenthau asked Mr. Magill if he could recommend this tax to the Treasury as a matter of principle to which Mr. Magill replied that if he were seeking the most desirable method to raise money he would not do it this way, but rather lower the exemptions and increase the rates between the lower levels and up to \$50 thousand and not permit exemptions to be applied to surtax.

Asked why he would eliminate the proposed tax he replied that that more or less put him on the spot, that he hadn't seen it long or thought about it much. The theory appealed to him, if it works, he said, because it forces income out where it is subject to such graduated taxes as we have. He said there is nothing inequitable about it but that he would figure out some percentage for the corporation to retain and some sinking fund provision. He agreed that most of the other proposals either yield no revenue or cannot be passed.

Mr. Morgenthau asked Dr. Viner if he thought such a proposal would retard business, to which his reply was, on the contrary, the general effect may be favorable. If corporations were using their funds and were forced to distribute them business would be retarded. In 1937 it will probably stimulate business, in 1938 it may retard. The general trend over the business cycle will be that there will be no effect unless the rate is overburdensome. He thought it a step in the right direction for dealing with such concerns as the Aluminum Co. of America which piles up excess surplus. He said it made great demands on draftsmanship and he did not like it as an emergency measure.

Mr. Oliphant said that as a matter of fact a draft had been prepared in 1933 but that fact cannot be whispered. He said as Beeman and Parker on the Hill get down to the business of drafting and ask Turney for suggestions he can feed the draft to them paragraph by paragraph in an inoffensive and acceptable, even welcome manner.

It was agreed that no bill should be sent to the Hill by the

President.

Dr. Viner raised some questions about why the normal tax on corporations should be higher than that of individuals if the proposed tax is to be enacted and suggested the problem of taking care of the equities of bond holders whose status in some particulars might be affected. He was of the opinion that such factors as limited liability, which was mentioned, have no relationship to the Federal income tax since it is the states which give that limited liability.

Mr. Magill remarked that not all of the differences between individual and corporation income rates could be ironed out. He said that while at one time he would have thought this proposal outrageous he no longer thinks so. He and Dr. Viner were agreed that consideration might be given to doing away with the capital stock tax.

Mr. Morgenthau stated that on the basis of the evening's discussion, he was satisfied to go ahead and recommend the tax.

Dr. Viner said he believed it was basically economically desirable because it gives the investor the right to determine what is done with his money.

February 27th

Senator Burton K. Wheeler came in to see me this morning and spent an hour with me. He said he was entirely satisfied with what I had done on silver. I asked him what he would have done had he been in my place and he said, "exactly the same".

February 27, 1936

On Tuesday of this week, Miss Le Hand's sister called the Secretary and said she wanted to make an appointment with him for United States Marshal John J. Murphy. HM, Jr. asked the purpose of the conference and Mrs. Rochan said she really did not know, but would appreciate it if the Secretary would see Mr. Murphy. HM, Jr. then had McReynolds call up Murphy to find out what he wanted and Murphy insisted that he had a proposition to present to the Secretary which would save the Government a great deal of money.

Murphy came in today with two of the worst looking crooks I ever saw. Murphy did the talking and said that one of the two men whom he had with him had invented some sort of a powder which could be used in fire extinguishers and which would out-do anything on the market today. Mr. Morgenthau completely flew off the handle and said, "It may be all right for a United States Marshal working for the Department of Justice to peddle powder for fire extinguishers, but that could not happen in the Treasury;" that Admiral Peoples' door was open to anyone who had anything legitimate to sell to the Government and that he thought it was a great imposition for a United States Marshal or anyone else to come into the office of the Secretary of the Treasury with an article he wanted to sell.

The Secretary literally threw the men out and then called up Miss Le Hand at the White House and told her about her sister's having called him; that her sister had definitely said she did not know what Murphy wanted. Miss Le Hand said her sister had no business to do such a thing. She said, "I happen to know Murphy and he is a crook, even though he is a United States Marshal." She apologized to the Secretary for her sister's action.

Tuesday
February 25, 1936

Miss LeHand's sister

Mrs. Rochan: Hello -

HM, Jr: Yes

Mrs. R: Mr. Morgenthau?

HM, Jr: Yes

Mrs. R: This is Mrs. Rochan -

HM, Jr: Yes

Mrs. R: And the Marshall wanted me to ask you -

HM, Jr: Who did?

Mrs. R: John Murphy, the Marshall -

HM, Jr: I'm sorry, I don't hear very well -

Mrs. R: United States Marshall, John J. Murphy -

HM, Jr: United States Marshall?

Mrs. R: Yes

HM, Jr: Yes

Mrs. R: Wanted me to ask you if it would be possible for him to have just a few minutes with you Thursday or Firday?

HM, Jr: Not - on what matter, please?

Mrs. R: I don't know, he said it was something very important.

HM, Jr: United States Marshall from where?

Mrs. R: From Boston

HM, Jr: Well, if it's important, yes

Mrs. R: Yes - He didn't tell me what it was.

HM, Jr: What's his name, please?

Mrs. R: United States Marshall, John J. Murphy

HM, Jr: John what?

Mrs. R: John J. Murphy

HM, Jr: John J. Murphy?

Mrs. R: Yes

HM, Jr: Might I ask why he asked you to do it for him?

Mrs. R: Well, I don't know (laughter)
I'm sure I don't know.

HM, Jr: Yes - well, he'll have to take his chances - if
he comes in Friday - Thursday afternoon I'll try
to see him.

Mrs. R: Yes

HM, Jr: We'll say around three o'clock.

Mrs. R: Yes

HM, Jr: Yes

Mrs. R: Thank you very much, Mr. Morgenthau.

HM, Jr: Thank you.

Mrs. R: All right.

VCNS42

February 27 - New York Evening
ADD FINANCES

"WE ARE BEGINNING TO GET A LITTLE MONEY IN TO GET READY FOR THE BONUS," MORGENTHAU SAID, IN ANNOUNCING THE PROPOSED FINANCING. "I CAN'T BREAK DOWN HOW MUCH BONUS MONEY AND HOW MUCH SPENDING MONEY IS INVOLVED."

HE SAID THAT ALL GOVERNMENT EXPENDITURES AND RECEIPTS HAD BEEN TAKEN INTO ACCOUNT IN ARRIVING AT THE TREASURY'S FINANCING NEEDS FOR THE IMMEDIATE FUTURE. HE REFUSED TO REVEAL WHAT FORM THE NEW SECURITY OFFERING WOULD TAKE. THESE DETAILS WILL BE ANNOUNCED OVER THE WEEKEND.

THE ENTIRE FINANCIAL OPERATION WAS DISCUSSED IN DETAIL YESTERDAY AT A CONFERENCE AMONG MORGENTHAU AND VARIOUS FEDERAL RESERVE OFFICIALS.

MORGENTHAU REFUSED, HOWEVER, TO REVEAL THE NATURE OF THE CONFERENCE OTHER THAN IT WAS "A PLEASANT ONE."

2/27--21112A

WCNS43

ADD ROOSEVELT CONFERENCE

THE MEETING WILL TAKE PLACE IN THE OVAL ROOM ON THE SECOND FLOOR OF THE EXECUTIVE MANSION AND WILL BE, ACCORDING TO SECRETARY EARLY, "A GENERAL ROUND-TABLE DISCUSSION."

EARLY EXPLAINED THAT THE PRESIDENT WAS NOT YET PREPARED TO LAY ANY SPECIFIC PROPOSALS BEFORE THE CONFERENCE AND THAT THE BUSINESS WOULD BE PURELY ALONG GENERAL EXPLORATORY LINES.

THOSE WHO WILL MEET WITH MR. ROOSEVELT ARE VICE PRESIDENT GARNER; SENATOR ALBEN BARKLEY; SPEAKER BYRNS; SECRETARY MORGENTHAU; SENATOR PAT HARRISON; CHAIRMAN DOUGHTON OF THE HOUSE WAYS AND MEANS COMMITTEE; REP. BANKHEAD; HERMAN OLIPHANT AND GEORGE MASS, TREASURY EXPERTS.

MEANWHILE, MR. ROOSEVELT WHO WENT TO THE EXECUTIVE OFFICE TODAY FOR THE FIRST TIME IN TWO DAYS, WENT AHEAD WITH A ROUTINE SCHEDULE THAT HAD FEW CALLERS UPON IT.

AT NOON HE ARRANGED TO LEAVE HIS DESK AND RETURN TO THE WHITE HOUSE FOR A LUNCHEON ENGAGEMENT WITH THE BUSINESS ADVISORY COUNCIL, HEADED BY SECRETARY ROPER.

QUESTIONS AS TO WHEN A SUCCESSOR WOULD BE SELECTED BY THE PRESIDENT FOR THE ASSISTANT SECRETARY OF NAVY POST MET WITH THE RESPONSE THAT ABOUT TEN DAYS TO TWO WEEKS WOULD ELAPSE.

2/27--R1118A

*See page 11 of 12 of
March 15 1936*

WCNS38

THE GOVERNMENT ON MARCH 15 WILL BORROW ALMOST \$500,000,000 OF NEW MONEY IN PREPARATION FOR THE SOLDIER BONUS PAYMENTS AND OTHER IMMEDIATE EXPENDITURES, SECRETARY MORGENTHAU SAID THIS MORNING.

2/27--R1054A

WCNS39

ADD FINANCES

A TOTAL OF \$1,809,000,000 IN NEW SECURITIES ARE TO BE ISSUED FOR THE MARCH FINANCING, BUT \$559,000,000 WILL BE USED TO RETIRE NOTES MATURING APRIL 15 AND \$452,000,000 FOR SHORT-TERM BILLS MATURING MARCH 15.

THE LATTER WILL BE PAID OFF IN CASH, LEAVING NEARLY \$800,000,000 IN NEW MONEY TO BE RAISED.

THESE BORROWINGS WOULD INCREASE THE TREASURY'S CASH BALANCE TO APPROXIMATELY \$2,600,000 AND AT THE SAME TIME BOOST THE PUBLIC DEBT TO ANOTHER ALL-TIME RECORD HIGH OF AROUND \$31,300,000,000.

2/27--R1057A

FEB 27 1936

11.04

TREASURY TO BORROW BILLION AND A QUARTER IN CASH
WASHN - SECY MORGENTHAU ANNOUNCED THIS MORN-
ING THAT THE TREASURY WILL BORROW IN ITS MAR 15
FINANCING 1 250 000 000 DLS IN CASH - OUT OF
THIS TOTAL THE SECY SAID THE TREASURY WILL
REDEEM 450 000 000 DLS IN TREASURY BILLS MATUR-
ING MAR 16 MAKING THE NET AMOUNT OF NEW MONEY
800 000 000 DLS - BESIDE OFFERING 1 250 000 000
DLS OF SECURITIES FOR CASH THE TREASURY WILL
REFUND IN THE MARCH 16 FINANCING 559 000 000 DL
IN TREASURY NOTES WHICH MATURE APR 15-

THE TOTAL OF THE ENTIRE FINANCING THEREFORE
MAY REACH 1 800 000 000 DLS

SECY O MORGENTHAU --

SECY MORGENTHAU ADMITTED THAT THE UNUSUALLY
LARGE BORROWING OF CASH IS IN ANTICIPATION OF
BONUS PAYMENT-

-WE ARE GETTING OUR HOUSE IN ORDER TO HANDLE THE BONUS- THE SECY SAID - -WE ARE DOING EVERYTHING WE CAN TO GET THE BONUS OUT ON TIME- IT WILL TAKE A LOT OF MONEY AND WE MIGHT AS WELL START GETTING REDAY FOR IT - I CAN-T BREAK DOWN HOW MUCH OF THIS MONEY IS NEEDED FOR THE BONUS AND HOW MUCH IS FOR SPENDING BUT EVERY SINGLE THING THAT WOULD COME INTO OR BE TAKEN OUT OF THE TREASURY HAS BEEN TAKEN INTO ACCOUNT AND WHEN WE GET ALL THROUGH THIS IS THE FIGURE WE ARRIVE AT- WHEN HE WAS ASKED WHY HOLDERS OF THE BILLS WHICH MATURE MARCH 16 WOULD NOT BE ALLOWED TO CONVERT THEM INTO NEW SECURITIES SECY MORGENTHAU SAID THAT HE DID NOT BELIEVE IT WAS GOOD FISCAL POLICY TO ALLOW BILL HOLDERS CONVERSION RIGHTS-

HE RECALLED THAT T J COOLIDGE WHILE HE WAS UNDERSECY ANNOUNCED THAT THE MAR 16 BILLS WOULD BE REDEEMED IN CASH-

WCNS7

Harrison *Tax Conference*

PRESIDENT ROOSEVELT TOLD CONGRESSIONAL LEADERS AT A CONFERENCE CONCLUDED EARLY TODAY THAT HE WILL INSIST ON PASSAGE OF A TAX PROGRAM AT THIS SESSION TO MEET FARM RELIEF; BONUS PAYMENTS AND OTHER EXPENSES.

THE PRESIDENT'S REQUEST WILL CALL FOR REVENUE TO REPLACE PROCESSING TAXES AND MEET APPROPRIATIONS NOT PROVIDED FOR IN HIS 1937 BUDGET MESSAGE SENT CONGRESS EARLY IN JANUARY.

THE REQUEST WILL BE MADE IN A MESSAGE TO BE SENT TO CONGRESS EARLY NEXT WEEK.

CHAIRMAN HARRISON OF THE SENATE FINANCE COMMITTEE, AS HE LEFT THE WHITE HOUSE CONFERENCE SHORTLY BEFORE 1:00 A.M., DECLINED TO ESTIMATE THE SIZE OF THE FORTHCOMING TAX MEASURE BUT SAID IT WOULD BALANCE THE ADMINISTRATION'S BUDGET FOR ORDINARY EXPENDITURES IN 1937.

"THE CONFERENCE WITH THE PRESIDENT CONSTITUTED A FULL DISCUSSION WITH REFERENCE TO THE FISCAL CONDITION OF THE GOVERNMENT," HARRISON SAID.

"THE PRESIDENT INFORMED THE CONFERENCE THAT NEXT WEEK HE WOULD SEND A MESSAGE TO CONGRESS AS TO THE NECESSITY AND NEEDS FOR FURTHER MONEY WITH REFERENCE TO BALANCING THE BUDGET IN 1937.

"HE WILL GIVE HIS IDEAS IN THE MESSAGE AND IT WILL MEAN A TAX BILL AT THIS SESSION.

"THE BILL WILL BE BIG ENOUGH TO BRING THE BUDGET AGAIN INTO LINE WHERE IT STOOD BEFORE THE BONUS WAS APPROVED AND THE SUPREME COURT KNOCKED OUT THE AAA. THAT IS ALL I CAN SAY," HARRISON CONCLUDED.

4CNS45

ADD ROOSEVELT

MR. ROOSEVELT OUTLINED HIS VIEWS WHICH BRIEFLY, ENCOMPASSED A THREE POINT PROGRAM AS FOLLOWS:

1. \$120,000,000 A YEAR IN NEW TAXES TO CARRY THE ADDITIONAL CHARGES INVOLVED IN IMMEDIATE BONUS PAYMENT ABOVE THE NORMAL AMOUNT SET ASIDE FOR THE PURPOSE IN THE EVENT THE BONUS WOULD HAVE BEEN PAID IN 1945.
2. \$500,000,000 IN SUBSTITUTE AAA TAXES.
3. A TEMPORARY TAX OVER A ONE TWO OR THREE YEAR PERIOD TO RECOVER THE \$500,000,000 THAT THE TREASURY MISSED OUT ON THIS YEAR AS THE RESULT OF THE SUPREME COURT DECISION OUTLAWING THE AAA.

THE PRESIDENT MADE IT CLEAR TO CONGRESSIONAL LEADERS THAT A SPECIAL TAX ON THE RETURNED AAA PROCESSING TAXES WOULD BE LEVIED IN ORDER TO HELP MAKE UP THE MISSING \$500,000,000. THE GOVERNMENT PLANS TO GET IT FROM WHOEVER IS THE BENEFICIARY WHICH MEANS THAT IT MAY NOT NECESSARILY BE THE ORIGINAL TAXPAYER.

THE AMOUNT INVOLVED RUNS ROUGHLY ABOUT \$150,000,000 YEARLY WHICH THE PRESIDENT DESCRIBED AS A HIGH PER CENTAGE OF THE WINDFALL INDIVIDUALS RECEIVED WHEN THE COURTS ORDERED THE IMPOUNDED MONEY RETURNED.

2/28--R1134A

WCNS47

ADD ROOSEVELT

THE TOTAL OF IMPOUNDED TAXES WHICH WERE LOST TO THE GOVERNMENT BY SUPREME COURT EDICT AMOUNTED TO ROUGHLY \$250,000,000 TO \$300,000,000.

MR. ROOSEVELT EMPHASIZED HIS VIEW THAT THE ONLY ACTUALLY NEW TAX WOULD BE THAT TO COVER THE \$120,000,000 NEEDED ANNUALLY FOR BONUS FINANCING.

THE REST HE DESCRIBED AS SUBSTITUTE LEVIES. HE POINTED OUT THAT THE IMMEDIATE PAYMENT OF THE BONUS MEANS AN ADDITIONAL COST OF \$120,000,000 PER YEAR FOR THE NEXT NINE YEARS IN ADDITION TO THE \$160,000,000 A YEAR WHICH THE TREASURY HAS BEEN ACCUMULATING AND WHICH WOULD HAVE TAKEN CARE OF THE BONUS UNDER THE ORIGINAL PLAN FOR 1945 PAYMENT.

THE OTHER NEED OF THE TREASURY, HE EXPLAINED, IS TO REIMBURSE ITSELF FOR TAXES WHICH WOULD HAVE BEEN COLLECTED IN THE FISCAL YEARS 1936 AND 1937 EXCEPT FOR THE SUPREME COURT DECISION.

THE TREASURY, HE ADDED, MUST IN SOME WAY GET THAT MONEY BACK AND IF IT DOES IT WILL BE IN THE SAME POSITION IT WAS BEFORE THE AAA DECISION WAS HANDED DOWN.

2/28--R1140A

FEB 28 1936

WASHN - PRESIDENT ROOSEVELT ANNOUNCED TODAY THAT HE WOULD SEEK FROM CONGRESS A TOTAL OF 1 137 000 000 DLS IN REVENUE TO COVER BONUS AMORTIZATION OF 120 000 000 DLS A YEAR FOR 9 YEARS 500 000 000 DLS AS A PERMANENT SUBSTITUTE -- SUBSTITUTE FOR PROCESSING TAXES AND 500 000 000 DLS IN TEMPORARY 1 TO 3 YEAR TAXES TO COVER CURRENT YEAR-S LOSS OF REVENUE FROM PROCESSING TAXES BY REASON OF THE AAA DECISION-

THE CHIEF EXECUTIVE STATED THAT A FORM OF INCOME TAX ON CORPNS WOULD BE LEVIED TO RECOUP THE APPROXIMATELY 150 000 000 DLS IN IMPOUNDED OR UNCOLLECTED PROCESSING TAXES - THIS TAX WOULD APPLY ONLY TO THE EXTENT OF RECOUPING FOR THE GOVT TAXES THAT WERE NOT COLLECTED AND WHICH PROCESSORS CANNOT PROVE WERE NOT PASSED ON TO THE CONSUMER - THE CHIEF EXECUTIVE BELIEVES THAT THESE SO-CALLED WINDFALL TAXES CAN BE LEVIED TO EQUALIZE THE TAX BURDEN WHICH EXISTED UNDER THE AAA

STARTING HIS LONG TAX DISCUSSION PRESIDENT

ROOSEVELT SAID THE TREASURY-S NEEDS ARE TWO-FOLD BOTH OF THESE HE SAID HAD BEEN PROVIDED FOR IN THE BUDGET BUT SUBSEQUENT EVENTS MAKE IT A NECESSARY FOR ADDITIONAL TAXES TO BALANCE THE BUDGET AS IT STOOD IN JANUARY WHEN THE MESSAGE WAS SENT TO CONGRESS-

THE TWO THINGS THAT MUST BE MET ARE BONUS AMORTIZATION AND RECOVERY OF LOST PROCESSING TAX REVENUE AS WELL AS A SUBSTITUTE TO MEET THE FUTURE FARM NEEDS - THE BONUS PAYMENT AT THIS TIME THE PRESIDENT STATED INCREASES THE BURDEN ON THE TREASURY TO THE EXTENT OF 120 000 000 DLS A YEAR FROM NOW UNTIL 1945 - UNDER THE OLD BONUS LAW THE TREASURY SET ASIDE FROM 150 000 000 DLS TO 160 000 000 DLS A YEAR TO PAY OFF THE BONUS IN 1945 - UNDER THE NEW LAW FROM 270 000 000 TO 280 000 000 DLS WILL BE NECESSARY TO AMORTIZE THE BONUS DEBT IN 1945 TAXES TO MEET THIS 120 000 000 DLS ADDED BURDEN WERE CLASSIFIED BY THE CHIEF EXECUTIVE AS NEW AND ADDITIONAL TAXATION TO BE PAID BY THE A TAX-PAYERS OF THE COUNTRY -

Saturday
February 29, 1936

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Dudley
Mills: Good morning, Mr. Secretary

HM, Jr: Good morning

M: Mr. Ritt is also on the line and wishes to say good morning.

R: Good morning

HM, Jr: Good morning, Mr. Mills.

M: Mr. Secretary -

HM, Jr: Yes

M: We think you did absolutely correct in not giving any rights to the March - to the March Treasury Bill.

HM, Jr: Right

M: And it helped the market a great deal -

HM, Jr: Good

M: It relieved the uncertainty -

HM, Jr: Good

M: And people know just - ^{know} they/now exactly what to expect -

HM, Jr: Good

M: Of course, there were some people who were disappointed.

HM, Jr: Yes

M: But, altogether the good of the market in the future - where you can put out Treasury bills now due in September or something like that. -

HM, Jr: I see.

M: - is worth more than this temporary disappointment on the part of a few people.

HM, Jr: Yes

M: Now, I will be frank in saying that a billion and a quarter cash -

HM, Jr: Yes

M: - surprised the market a little.

HM, Jr: Yes

M: It was a little bit of a shock -

HM, Jr: Yes

M: Now, a billion and a quarter cash and five hundred and fifty million exchanges -

HM, Jr: Yes

M: - making a total new offering of a billion eight -

HM, Jr: Right

M: - is a very large offering.

HM, Jr: Yes

M: And the market is - well, it's just the conservative people in it were just a little bit - well, that's a large amount of money. I don't think there's any question - it'll go over very very well.

HM, Jr: Yes

M: Now, I think six hundred and fifty million each would give a billion three -

HM, Jr: Well, we only asked for a billion and a quarter.

M: A billion and a quarter? Well then, it'll have to be divided up, six hundred, seven hundred, or whatever way you want it.

HM, Jr: Well, which way would you say?

M: Well, the market for bonds is very good, sir.

HM, Jr: Yes

M: But I will say this in the conservative side -

HM, Jr: Yes

M: That the holders of the two and seven-eighths of thirty-six were all short invested.

HM, Jr: Yes

M: The people that bought the Treasury Bills were all short invested.

HM, Jr: Yes

M: That's a billion dollars or the billion eight -

HM, Jr: Yes

M: - is now invested in short

HM, Jr: Yes

M: So I personally would favor the five year.

HM, Jr: Yes

M: Now that - that's my own personal reaction, because of the large amount that's held for three years or for six months.

HM, Jr: Well, the April notes would give them their choice.

M: That's right - that's right.

HM, Jr: But how would you recommend dividing up the billion and a quarter as between bonds and notes?

M: Well I'd make it equal.

HM, Jr: You'd make it equal?

M: That would be my own opinion, yes.

HM, Jr: I see.

M: Now, just one thing, I think the five year one and a half and a twelve-fourteen year bond, a fifty-eight sixty and a five year one and a half. Now I wouldn't - I would not get out three issues, because one of them will always be neglected.

HM, Jr: Yes

M: Now on the five year note Mr. Ritt had something he wanted to enlarge on that and I think he'll come on the phone right now, he's been listening.

HM, Jr: Please

R: In the nineteen forty maturities you have less maturities

than the billion seven hundred million now -

HM,Jr: Yes

R: And you have callable of the three and three-eighths three hundred and fifty-three million making approximately two billion which may mature in that year.

HM,Jr: In nineteen forty?

R: Yes - in nineteen forty-one you just have the three and a quarter of the forty-one.

HM,Jr: - three and a -

R: Three and a quarter of the nineteen -

HM,Jr: Yes, the only ones for the fixed maturity.

R: And then you have the optional date -

HM,Jr: Yes

R: - on the three and three-eighths of forty-one three.

HM,Jr: That's right.

R: So, it seems to me that in spreading the amount which matures that there is more open room in nineteen forty-one rather than getting too much in nineteen forty.

HM,Jr: Well, now, let me think. Well, a five year note would fall in forty-one.

R: A five - therefore a five year one and a half -

EM,Jr: Yes

R: I think would be preferable to a four and a half year one and three-eighths for that reason.

HM,Jr: Well, I don't think there's an awful lot of argument about that.

R: Yes

HM,Jr: The only thing is whether a five year one and a half is a little bit too sweet.

R: Well, it is at that. But on the other hand a five year one and three-eighths is rather close.

HM,Jr: Yes, yes

R: I believe it would take a - it would take a very small premium of five, maybe five to eight thirty-seconds, something like that -

HM,Jr: How would you divide the billion and a quarter as to bonds and notes?

R: Well, I agree with Mr. Mills that the maturing certificates and Treasury Bills - I understand that are short holders.

HM,Jr: Yes

R: On the other hand the market is very good for bonds.

HM,Jr: It's been suggested by a number of people that we make it seven hundred and fifty bonds and five hundred notes -

R: Yes

HM,Jr: Do you think that's too strong on the bonds?

R: I would say if it worked in with the plans of the Treasury, no.

HM,Jr: Well, we -

R: The more conservative thing to do would be to divide it half and half.

HM,Jr: It would be?

R: That would be my impression, but I think you could do seven fifty to five hundred if it worked in with your plans better.

HM,Jr: Yes - but the more conservative we make it - well, let's see - it's divided as near equally as possible.

R: Yes and then you'd treat both classes at best as equally.

HM,Jr: I see. Now, what do you think a premium would be on a five year one and a half?

R: A five year one and a half?

HM,Jr: What do you suppose it would sell at?

R: Well, I should think it would certainly sell at a half a point premium to start with.

M: I think - this is Mr. Mills again -

HM,Jr: Yes

M: I think one and a half at - - forty now quoted at twenty-five twenty-seven -

HM,Jr: Yes

M: I think they'll drop around twenty on Monday.

HM,Jr: Yes

M: And the new bonds with the new notes would stay around fourteen-sixteen and then with the weight of the new offering they won't - I don't think they'll sell much above twelve fourteen thirty-seconds.

HM,Jr: Yes, well, now - on the bonds you people suggest forty-eight - ?

M: Fifty-eight sixty -

HM,Jr: What?

M: Fifty-eight sixty - forty-eight sixty -

HM,Jr: No

M: Forty-eight fifty (Laughter)

HM,Jr: You're talking another generation.

M: Yes (Laughter)

HM,Jr: Forty-eight - ?

M: Forty-eight fifty.

HM,Jr: Forty-eight fifty - wouldn't fifty-one be just as good?

M: Yes - they're optional dates - forty-eight fifty-one would be perfectly all right.

HM,Jr: Because, fifty-one from our maturities is a little bit better.

M: Yes

HM,Jr: - would set the picture a little bit better.

M: It wouldn't make any difference.

HM,Jr: It wouldn't make any difference?

M: Not a bit.

HM,Jr: What do - how much premium do you think that would have?

M: Well, that's very difficult to answer.

HM,Jr: I see.

M: I should estimate it would go to around - well just about the same it would be a one and a half year note around twelve fourteen to begin with.

HM,Jr: Yes

M: It all depends upon the weight of the offering in the market. This is a very large cash offering. It's the largest cash offering the Treasury has offered in - oh, about two years.

HM,Jr: Really? Well, then -

M: A billion dollars is the most that's ever been raised at one time before.

HM,Jr: But as between a forty-eight fifty and forty-eight fifty-one you don't care?

M: No - makes no difference.

HM,Jr: What?

M: No difference

HM,Jr: No difference? And you feel that it would be crowding it a little bit to make it seven-fifty bonds?

M: Well, - no, I don't think so, but it's - it's really on the side of - of liberality.

HM,Jr: Pardon me? - I didn't get that.

M: It's a little bit strong.

HM,Jr: A little bit strong?

M: Seven hundred and fifty million bonds is a lot of bonds with - with a five hundred and fifty million on top of it.

HM,Jr: Yes - yes

M: Of course if you don't want no more bond issues for two or three months it gives the market plenty of time to

HM,Jr: Yes

M: Why it's all right.

HM,Jr: I see. Well, of course I can't make any promises.

M: No, no -

HM,Jr: Let me ask you this, what sort of reception did the President's announcement on taxes get? - From the people - ?

M: Well, that's difficult because we're not very good political judges (Laughter)

HM,Jr: Well -

M: It -I think/^{it}was a very courageous thing for him to do -

HM,Jr: Yes

M: To come out and demand a tax and of course the uncertainty is what form they're going to take.

HM,Jr: I see.

M: Because a billion dollars in taxes is a pretty shaky - a pretty big amount -

HM,Jr: Yes

M: No one knows what form that Congress will give to it.

HM,Jr: Yes

M: But he was very courageous to come out and it helped the Government Bond market tremendously -

HM,Jr: It did?

M: - to come out like that on the taxes.

HM,Jr: Well now, let me ask you another - are there any sour spots in the bond market? - or the - ?

M: None at all

HM,Jr: Did that issue for the Consolidated Gas, did that - ?

M: Oh, yes

HM, Jr: What?

M: Oh, they could have sold seven hundred million of those.

HM, Jr: They could have?

M: They said they were just like a Government issue. They could have sold any amount of them. They went to a one and a half point premium immediately.

HM, Jr: Now there are no issues which are sticky are there up there?

M: No

HM, Jr: What?

M: No, the market

HM, Jr: Well - We'll sit around here for a couple of more hours and we'll make up our minds. Is there anything else you can add?

M: (Laughter)

R: There's just one thing I'd like to say. There's been some talk in the New York market that - of the possibility of a two and seven-eighths per cent bond -

HM, Jr: Yes

R: - with maturity at fifty-three to fifty-five.

HM, Jr: Yes

R: Well, my thought on that was that it might just open up a little adverse comment because you would be shortening in maturity -

HM, Jr: Yes

R: - under the outstanding two and seven-eighths -

HM, Jr: Yes

R: - with a two and seven-eighths coupon. I think retrogression whereas taking a two and three-quarter coupon and presenting the maturity -

HM, Jr: Yes

R: - it looks better from the Treasury standpoint.

HM,Jr: Oh, I think you're absolutely right.

R: Yes

HM,Jr: I think you're absolutely right.

R: But that talk has been around.

HM,Jr: Yes, well, I mean, it's perfectly obvious that we can get out a two and three-quarter and extend it three years - the length over December.

R: Yes

HM,Jr: That reflects an improvement in the market.

R: Oh, yes

HM,Jr: If we take a two and seven-eighths and go back five years - shorten it up five years - it looks as though things were - the bond market wasn't as strong.

R: Yes, that's right.

HM,Jr: And I can't see that at all.

R: Yes (Laughter) I just wanted to mention that.

HM,Jr: Well, I'm very much obliged.

M: Thank you, sir.

HM,Jr: Goodbye - we hope everything goes well Monday.

M: Oh, it will, I'm sure it will. - I'm sure it will.

HM,Jr: (Laughter) All right, goodbye.

M: Goodbye, sir.

HM,Jr: Goodbye.

Saturday
February 29, 1936

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Allan
Pope: Hello, Mr. Secretary?

HM, Jr: Yes

P: Allan Pope talking -

HM, Jr: Good morning -

P: Good morning - you asked me to call you up some time before ten-thirty.

HM, Jr: I certainly did.

P: I don't see anything about the market very different from when I was talking with you - in fact it's a little bit stronger if anything.

HM, Jr: Yes

P: And in regard to the matter which I spoke to you about about the one and a half note - I still think that if you don't bring too many why you couldn't possibly bring one and three-eighths -

HM, Jr: You do?

P: - a little closer to the market, but it's always advisable to do, but in view of the demand I think you probably could get away with a sizeable amount.

HM, Jr: Well, now, when you say a one and three-eighths, do you mean a five year?

P: A five year, yes.

HM, Jr: Yes - Do you think, - ?

P: But a one and a half would be attractive and can be without question done for five years.

HM, Jr: Yes

P: A one and three-eighths can be done in the present yield on the December one and a half which are three months shorter thirty-two one hundredths will give you a little less than one and three-eighths.

HM, Jr: I see.

P: That's coming in pretty fairly close to the market.

HM, Jr: The one and three-eighths?

P: Yes

HM, Jr: Now -

P: As far as the long threes are concerned there's nothing to prevent at least three quarters of a billion.

HM, Jr: What's that?

P: I said I don't see anything to prevent long threes - twenty-five year threes from being - to the extent of at least three quarters of a billion anyway -

HM, Jr: Is that right?

P: Yes

HM, Jr: You're going to stick by those long threes?

P: I don't think there's any doubt of it myself. I think it's perfectly clear.

HM, Jr: I see.

P: I think two and seven-eighths - (Clicking sound)

HM, Jr: Hello -

P: Hello, I think two and seven-eighths are a little less attractive.

HM, Jr: I see.

P: The two and seven-eighths are the only issue that isn't up at their high.

HM, Jr: Yes

P: - all the time.

HM, Jr: Yes

P: It's never been popular. I think the long three years will be a different story.

HM, Jr: Well, if we didn't do a three, if we did a medium bond, what would you say?

P: If you did an intermediate one?

HM, Jr: Yes

P: Well the two and three quarters at a hundred and two offered a hundred and two five offered at a hundred and two seven - first movement -

HM, Jr: Yes

P: That's the ten years -

HM, Jr: Yes

P: If you go to fifteen years you've got - you've got a little question there -

HM, Jr: Yes

P: Because if you pay in ten years of course you've got to put a premium on them.

HM, Jr: Yes

P: Which

HM, Jr: Oh -

P: On account of this ruling of the Comptroller.

HM, Jr: Pay - how do you think a forty-eight fifty-one would go?

P: A forty-eight fifty-one?

HM, Jr: Two and three-quarters -

P: a two and three-quarters, you mean?

HM, Jr: Two and three-quarters.

P: Yes - Well, I think that could be done, probably.

HM, Jr: But you're not very enthusiastic?

P: Well I - yes, I'm- I think that - I only feel about it this way that I think you can extend your time -

HM, Jr: Yes

P: - beyond the - the thirteen year period there why this is an opportune time to do it.

HM,Jr: Yes

P: That would be my feeling.

HM,Jr: Yes

P:

HM,Jr: Well, let me ask you this, you know we've got to raise a billion and a quarter - how would you divide that amount as between notes and bonds whatever the bonds are?

P: Well, I - I think that if you're going to go very long bonds -

HM,Jr: Yes

P: Or if you're to go intermediate it's a little different. I think with very long bonds you'd do well to stick within three quarters of a billion -

HM,Jr: Yes

P: But, I think if you're going to^{go} with intermediate maturities -

HM,Jr: Yes

P: Twelve or thirteen years the first call date -

HM,Jr: Yes

P: Why I think you could split it even.

HM,Jr: Split it even? In other words you don't think we can sell as many of the intermediate as we can of the long?

P: No, I think you can sell a little more. I think you can sell a little more intermediate ones than you can the long.

HM,Jr: I don't think I quite understand.

P: Well, I mean if you're going to bring out a billion eight hundred million I would think the most you could do would be eight hundred million of very long bonds and a billion of the short notes.

HM,Jr: Yes

P: And if you're going to bring out intermediate ones - thirteen years - I think you could do a billion of each.

HM,Jr: But look, I don't - I don't quite follow you. We've got only - we're only going to offer a billion and a quarter.

P: A billion and a quarter?

HM,Jr: Well, that's what I announced - a billion and two hundred and fifty million for cash -

P: Yes

HM,Jr: Now, I'm talking now as a billion two hundred and fifty million - would you offer as between a note and an intermediate bond, I mean, how would you divide that? I mean, would you offer - ?

P:

HM,Jr: I know, but let's just forget that -

P: Yes, all right

HM,Jr: How would you divide the cash offering?

P: Well, the cash? Well, I think that you can - you can't really count that - that cash thing
you can count the turn-ins because the turn-ins are really either cash or because they'll sell them and get the cash.

HM,Jr: Well, but - but I've got to make up my mind this morning on the billion and a quarter, if I offer six hundred and twenty-five million of each or whether it's five and seventy-five or just how I do it, you see?

P: Yes -

HM,Jr: And the turn-ins - the turn-ins -

P: to allow the maturing obligations to -

HM,Jr: have their choice.

P: - to take their choice.

HM,Jr: To take their choice.

P: Yes

HM,Jr: So I've got to make a decision on the billion and a quarter - how I divide that, you see?

P: Well, I'm sorry to be - to appear a bit stupid on this thing here now but my understanding of it is the total amount of obligations which will come out will be about a billion eight, is that right?

HM,Jr: A billion eight -

P: Yes - I think you've got to consider it on the basis of the whole rather than the amount for cash.

HM,Jr: The - that is true, but I - but in making up my mind the next hour or two I've got to announce as of the billion and a quarter so much will be for notes and so much will be for bonds.

P: Yes, well, then according to that - you've got to determine then how much of the eight hundred million will be for bonds.

HM,Jr: No, of the billion and a quarter.

P: Well, you've got - haven't you got to determine that for the eight hundred million too?

HM,Jr: Yes, but that's all part of it, you see?

P: Yes, that's what I mean.

HM,Jr: But I mean, I've got to say we going to - we are asking cash - a billion and a quarter of which "x" dollars will be for bonds and "x" dollars will be for notes. The two together making a billion and a quarter.

P: Well - if that's the case I'd just say that you could divide it equally.

HM,Jr: Equally?

P: Yes, sir

HM,Jr: That's what I wanted to know. I mean so that the offering would be six hundred and twenty-five for bonds and six hundred and twenty-five for notes and that the Aprils would have their choice of either.

P: Yes, well now, do I understand / ^{from} your statement here now that your total offering - I want to be sure that I am not making any mistake.

HM,Jr: Please -

P: - your total offering this time will be one billion eight?

HM,Jr: That's right.

P: And when the total offering is one billion eight I think you've got to divide the one billion eight rather than the - just what's prepared.

HM,Jr: But I can't divide it because I can't tell the people what to do -

P: No

HM,Jr: - with their notes.

P: They'll have - well, I see what you mean. Well I'd divide the - equally, then.

HM,Jr: What?

P: I'd divide the notes equally between the bonds and the cash.

HM,Jr: You mean - the only choice I have is for - of the billion and a quarter which is the cash.

P: Yes

HM,Jr: I can say I will offer so much for bonds - so much will be for bonds and so much for notes -

P: Yes

HM,Jr: You see?

P: Yes

HM,Jr: Now, I can say there'll be five and seven fifty or six and a quarter and six and a quarter, see? - Leaving it to the people -

P: You'd be safe in having half -

HM,Jr: Half?

P: Yes

HM,Jr: I see. Half of each?

P: Half of each -

HM,Jr: And as between a twelve fifteen and a twenty-five thirty you lean towards a twenty-five thirty, is that right?

P: A twenty-five thirty, yes -

HM,Jr: Well, that's all very helpful.

P:

HM,Jr: Now the bond market - there are no sour spots anywhere, no soft spots?

P: No, they're all strong.

HM,Jr: What's that?

P: Everything is strong.

HM,Jr: Everything is strong?

P: Yes

HM,Jr: Well, I'm very much obliged, -

P: You're very welcome.

HM,Jr: Thank you.

P:

Saturday
February 29, 1936

HM, Jr: How are you?
W. R.
Burgess: I'm very well.

HM, Jr: Well, we're sitting around here, three or four of us -
B: Yes
HM, Jr: And we thought we'd get the first flash from you -
B: Well, I - I feel just as I did yesterday -
HM, Jr: Yes
B: I'd do a five year one and a half and the - the
forty-eight fifty-one two and three quarters and I'd
do - I'd do five hundred million of the five year
and I'd do seven hundred and fifty million of the
other.

HM, Jr: Yes
B: And I'm sure that would go.
HM, Jr: You're sure it would go?
B: Yes, yes
HM, Jr: Well, now, you don't think the seven fifty is a little
strong?
B: No, I really don't, I think it would go nicely.
HM, Jr: Have you had a check this morning with your different
people?
B: Yes, I've - I've talked to four dealers this morning.
HM, Jr: Yes, what four?
B: How was that?
HM, Jr: Which four?
B: I talked to Discount, Solomon -
HM, Jr: Yes
B: Childs and New York and Hanseatic.
HM, Jr: I see. Which was the last?
B: New York and Hanseatic?

HM,Jr: No, I don't know -

B: One of the smaller dealers -

HM,Jr: Yes

B: And they're all - they all say that what you offer will go. Anything within reason -

HM,Jr: The only thing I'm questioning is the five hundred and the seven fifty.

B: Yes, yes -

HM,Jr: I mean, whether we shouldn't make it maybe sixty hundred and six-fifty.- ?

B: Well, I think that the evidence is then that the people are leaning a little more toward bonds now -

HM,Jr: Yes

B: - and a little less towards notes.

HM,Jr: I see.

B: So that - that I'm sure it'll go.

HM,Jr: You're sure?

B: Yes, yes -

HM,Jr: Of course it - it's a much nicer sale, I mean, to sell the bonds.

B: Yes, sure -

HM,Jr: How do you thing those fellows - those fellows with the April notes, how do you think they'll - what do you think they'll do?

B: Well, I think they'll go about fifty fifty.

HM,Jr: You do?

B: I rather think so, yes.

HM,Jr: Well, that would make about - of the notes then we'd have about seven hundred million of those notes out.

B: Yes, that's right -

HM,Jr: I mean -

B: It would make a nice issue.

HM,Jr: I mean, it would be about seven hundred, wouldn't it?

B: Seven hundred and fifty or eight hundred, yes.

HM,Jr: So that would make a pretty nice issue?

B: Oh, that's a nice issue, yes.

HM,Jr: And about a billion bonds?

B: That's right. You see there's a little more gravy in the bonds.

HM,Jr: How much gravy do you figure?

B: Well, I figure about a point gravy.

HM,Jr: One point?

B: Yes, and there's about half a point in the note.

HM,Jr: I see.

B: So there'd be some people who go in the bonds a little lightly.

HM,Jr: Yes.

B: And that'll - that will balance off the fellows I think that want to go short.

HM,Jr: Well, we've done a little figuring here and figuring at the lowest, you see?

B: Yes.

HM,Jr: - we figured there was a half a point in the bonds -

B: Yes.

HM,Jr: - to a point and a quarter - Hello?

B: Yes, yes.

HM,Jr: And - on the notes, at the very worst eight thirty-seconds up to the possibility of - oh, twenty-three thirty-seconds.

B: Yes, well, I think that's a fairly good range, yes.

HM, Jr: Is that about the way you figured?

B: That's right, yes, I'm right in between those -

HM, Jr: I mean, between eight thirty-seconds and twenty-three -

B: Yes

HM, Jr: And on the bonds George Haas figured from sixteen thirty-seconds up to - oh possibly one - a hundred and one and a half at the very top.

B: Well, you see, I was giving you just the average on those figures, really.

HM, Jr: And if they went at the lowest figures that would be enough gravy to put the issue over, wouldn't it?

B: That's right, yes - yes

HM, Jr: Of course, now let me ask you this, just - just a minute before - I want to ask Dan if he wants to ask anything - just hold on please. He - Dan is going to talk to you himself.

B: Yes

Dan

Bell: Hello

B: Hello, Dan

Bell: I just wonder if you changed your mind on the-splitting the offering?

B: No, I'd give them fifty per cent of their capital on each.

Bell: On each?

B: Yes

Bell: Well, you didn't want to - last night you thought you might give them fifty on the bonds - on the notes and go up to the full capital surplus on the -

B: Well, I think on the whole it is better to do fifty on each,

Bell: Well, I agree it's better.

B: I tell you I think that if you do it - if you give them a hundred per cent on the bonds they'll get an idea we're a little nervous about the bonds.

Bell: Yes

B: And I think that gives them plenty of room - on the bonds. That gives them all they want - any real investor No bank ought to subscribe to any issue of bonds -

Bell: Yes

B: - more than half its capital surplus.

Bell: Wait a minute -

(Pause)

B: Hello -

Bell: We're not going to give any interest for the month March fifteen to April fifteen.

B: No, you don't need to do that.

Bell: Plenty of gravy there anyhow.

B: Plenty of gravy, yes.

Bell: And we give five thousand in full allotment.

B: Yes , yes

Bell: O. K.?

B: I think that's right. and require the same deposit that you required last time -

Bell: That's right - cash subscription - other than incorporated banks and trust companies will be five per cent and all others in full.

B: Yes, yes

Bell: Same as last time?

B: Yes, that's right.

Bell: O. K.

B: Yes

Bell: Just a moment -

RM, Jr: Well, now, Burgess, do you think I ought to check with you once more? I can't see the President until twelve thirty this morning.

B: Well, I don't think we need to. I tell you, if there is any change I'll call you. - Unless you want to check -

HM,Jr: Well, why don't I - I'll check with you once more at eleven-thirty sharp.

B: All right, sir

HM,Jr: How is that?

B: Very good

HM,jr: I'll check with you once more at eleven thirty.

B: First rate

HM,Jr: All right

B: All right, sir, it's going to be a success -

HM,Jr: What's that?

B: It's going to be a success.

HM,Jr: I hope so. I'm superstitious. I -

B: You've got your fingers crossed - ?

HM,Jr: Always -

B: Well, there's only one thing in the evidence here this morning that is at all adverse.

HM,Jr: Yes

B: Somebody called me up about the Federal Advisory Council statement, you know, about raising reserve requirements?

HM,Jr: Yes

B: But I don't think many people will even notice that.

HM,Jr: I don't even think they know it exists.

B: No, I don't either. And so that - after all last year they were recommending sales to the Government by the system.

HM,Jr: Dan says that they have been taken over by the Liberty League.

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B: (Laughter) Well, at any rate I don't think it'll bother you much.

HM, Jr: I'll tell you a good story, yesterday at Cabinet the Army wanted two hundred and fifty thousand dollars for something or other and the President said, 'Do you suppose we can find it -'

B: Probably for lead pencils for General Haygood.

HM, Jr: Something like that -

B: (Laughter)

HM, Jr: No, we're getting him a loud speaker.

B: (Laughter)

HM, Jr: So I said, 'Well, Mr. President, I'd be afraid to say no to the Army after what's happened in Japan that they might have me shot'.

B: Yes, - yes

HM, Jr: So -

B: Well, they wouldn't shoot you with those two flags standing beside you there.

HM, Jr: Well, that's something.

B: (Laughter) That's a good point, you know.

HM, Jr: Yes, well, all right, I'll call you at eleven thirty.

B: Very good

HM, Jr: Goodbye

B: Secretary -

HM, Jr: Burgess, I forgot to ask you just a little detail -

B: Yes

HM, Jr: As I remember it you got a hundred and how many million of those notes in the system?

B: A hundred and thirty-two

HM, Jr: A hundred and thirty-two?

B: Yes

HM, Jr: And what are you going to do with them?

B: We're going to take fifty million in bonds and the rest in notes.

HM,Jr: Fifty in bonds - ?

B: - The rest in notes, yes.

HM,Jr: The rest in notes?

B: We fixed it up at our meeting - and the board has just approved it.

HM,Jr: Fifty in bonds and the rest in notes?

B: Yes

HM,Jr: You're not going to let any of them run off?

B: No -

HM,Jr: You want to sell anything - this morning?

B: (Laughter) No

HM,Jr: (Laughter) What?

B: I society, now, you know?

HM,Jr: What's that?

B: There's a joker in the law -

HM,Jr: What's that?

B: The ~

HM,Jr: Oh, you can't sell to us?

B: You can't do anything except with the new Open Market Committee, you know.

HM,Jr: Well, wait a minute -

B: I'm out of the picture -

HM,Jr: Wait a minute, wait a minute, wait a minute - It's the twenty-eighth - it's the twenty-ninth of February.

B: Well, I can do something this morning, yes.

(Laughter)

B: But just a few hours, you know, before the business

HM, Jr: It's all right, we've got an hour and ten minutes.

B: (Laughter) I'll try to think up something.

HM, Jr: O. K. All right

B: Right

HM, Jr: Goodbye.

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HM, Jr: Hello -
W. R.
Burgess: Hello, sir

HM, Jr: Well, Burgess, what's your last thought?

B: All's well on the Rialto, no change.

HM, Jr: On the Rialto no change?

B: No change on the Rialto, no.

HM, Jr: Well, we've had a slight change up here -

B: Yes

HM, Jr: I've gone a little conservative on you.

B: Yes

HM, Jr: I think I'll make it six hundred notes and six-fifty bonds.

B: Oh well, well, well, well, well -

HM, Jr: What?

B: Well, well, well, well, well -

HM, Jr: Yes

B: I don't think you need to, you know?

HM, Jr: I know, but you fellows down there, you get so enthusiastic and get carried away by this New Deal -

B: By Jove, it's a delight to hear a Secretary of the Treasury talk that way. They usually tell us we're - we're too damned conservative.

HM, Jr: No - but -

B: (Laughter)

HM, Jr: You - no, the street down there - they changed too quickly for me.

B: Yes, yes - yes

HM, Jr: And I told some of these smart boys a month ago I could have gone down on my hands and knees and asked to buy two and seven-eighths under par they'd thumb up their nose at me.

B: Yes, yes

HM,Jr: Now today, it's all the other way.

B: Yes, yes

HM,Jr: And I - I'd just as soon play a little bit on the safe side I think.

B: Well, I'm not going to fight you. I don't think it makes very much difference.

HM,Jr: No - the, the only thing is it's just a little bit more insurance -

B: You can get away with the other all right, but - but we're giving them a pretty good - a pretty nice - a nice rich offering anyway.

HM,Jr: Yes - Well, I feel a little bit happier about it and as I said I never went down in the dumps the way they do and I'm not riding quite as high as they are now.

B: Yes, yes

HM,Jr: So I think I'll be just a little bit more conservative in the street for once.

B: All right, sir, I won't attempt to dissuade you.

HM,Jr: All right, - Now, I'm going over to see the President in a little while and then about one o'clock we'll put this stuff on the wire.

B: Yes, yes

HM,Jr: Very much obliged and I feel things are all right, but we'll know Monday night.

B: Yes - is Dan Bell with you?

HM,Jr: Yes, he is, want to talk - ?

B: May I talk with him? I've got a little piece of house-keeping to do.

HM,Jr: Please -

Bell: Hello

B: Dan?

Bell: Yes

B: A few of these private banks in New York, Morgan's and Brown Brothers and one or two others sometimes get subscriptions from their customers. Now they're doing of course a regular banking business -

(Interruption by operator)

B: Hello?

Bell: Hello?

B: Yes

Bell: Yes

B: Of course they do a regular banking business and it's a little embarrassing for them to have to send their customers around to some other bank. They're not incorporated banks and trust companies. Now I wondered if we couldn't take subscriptions from customers from these fellows on the same basis as we would from the incorporated banks and trust companies? from private - from private bankers whom the Superintendent of the State of New York has authorized to transact a banking business, you know?

Bell: Yes

B: And which are supervised and examined by the Superintendent. I think we ought to have a note on it before we did it but I think it's the sensible thing to do.

Bell: Well, wouldn't we have to change our Circular?

B: Oh, no, no - don't change the Circular at all, just drop us a note authorizing us to accept the subscriptions from customers from these fellows - on the same basis as though they were an incorporated bank or trust company.

Bell: Wouldn't we have to give every Federal Reserve Bank the same notice?

B: No, I don't think so. They don't have private bankers in the same sense as we have.

Bell: That - that would be amending the circular in a sense by a private note to you.

B: Yes, it would be dealing with a case which really isn't provided for in the Circular. They aren't - they're treated just like a business corporation, you see?

Bell: Yes, well, I - I question that, Doctor -

B: Yes

Bell: - trying to change this procedure now. We might provide for it in the next Circular, next time.

B: Well -

Bell: Is it something that you could handle yourself?

B: Well, I suppose we could do it ^{advice} from you. As a matter of fact I think we have once or twice ^{our record} The last time for example the Equitable Life put in ten million through the - through Morgan -

Bell: Yes

B: Now - they're doing a banking business for them and it's awkward for them to refuse it and it seems stupid for the - to make it harder for a person to subscribe who happens to be a customer of a private banking house and doing business there.

Bell: Well I think we agreed to that - agreed that we're making it harder for these people at the time we put in this division.

B: Yes

Bell: I just hesitate to do anything like that and thrash it out the next time.

B: Yes, yes, yes

Bell: Don't you think we'd better make provision for it the next time we do our financing?

B: Well, it's awfully hard to do it in the Circular, I think. It's a kind of a New York problem, because I only have a few of these fellows.

Bell: Well then I think we ought to put in our Circular giving the Federal Reserve Banks some leaway.

B: Well, that might be done. That might be done. Of course we have handled special cases by telephone or, oh, one way or another, from time to time and I had Logan go into it and -

Bell: Well, I prefer to let it go along as it is now and then the next time we get out our financing let's change it in the Circular by giving you as fiscal agent some authority.

B: Yes - That doesn't take care of this - this special case of course.

Bell: No

B: No - Well, let me turn it over and I'll talk with you Monday morning -

Bell: All right

B: tied up with the issue now.

Bell: All right

B: And we can take it up then.

Bell: Fine

B: First rate

Bell: Thank you.

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William
Phillips: Chenn -

HM, Jr: Yes

P: - letter that I spoke to you yesterday about -

HM, Jr: Please

P: "Department in the light of conversations with RFC and Treasury Officials feels that interested Chinese officialdom should be discouraged from entertaining expectation of reinstatement of cancelled portion of cotton and wheat credit. Chenn will presumably be permitted to raise any questions and make any inquiries which his Government may wish to put forward, but it would be neither to this Government's nor to the Chinese Government's advantage for him to arrive here with preconceived expectation of success in seeking loans or credits. Such questions as possible remission of schedules of payments on outstanding obligations will perhaps be acceptable of discussion with possibility of progress within limits. Also this Government will be disposed to raise questions relating to plans for liquidating by the Chinese Government of that Government's obligations to American creditors. In brief, Chenn should come - "

HM, Jr: Pardon me, that last sentence. I - I'm very strongly opposed to that.

P: You're opposed to that?

HM, Jr: Yes

P: - Raising plans for liquidating by the Chinese - of that Government's obligations?

HM, Jr: Yes, well, this Government - yes, very much so. Now, I mean, I was very much upset, the last time when Hornbeck brought up this question about the Continental Bank and the Pacific - that Pacific thing.

P: Oh, yes

HM, Jr: And I discussed that with the President and the President was just as upset as I was.

P: I see.

HM, Jr: Now, I'm just on the way to the White House - it's awfully hard to do this on the telephone. I'd much

rather let it go until Monday.

P: He's sailing in the very early days of March.

HM,Jr: Well, he isn't - he's postponed his trip.

P: All right

HM,Jr: But I - I'd like to have this out and I'd like to have Hornbeck present.

P: Yes

HM,Jr: Because, as I understand it he raised it at that time and I took it up - I only heard about it a month afterwards.

P: Yes

HM,Jr: And I very distinctly don't want to raise private debts which were incurred by another Government of China -

P: Yes

HM,Jr: And I know the President doesn't.

P: Well, of course that could be omitted perfectly well.

HM,Jr: Well, I - I'd much rather, if you don't mind, Bill, sitting down with you Monday and with Hornbeck and let's have it out before the man comes over here.

P: Yes, well, supposing I send Hornbeck over? I've got to go - to go away to a funeral on Monday.

HM,Jr: Well, I'd much rather have you than he or - have it - I'll come over and see Mr. Hull?

P: Yes

HM,Jr: There's no use of Hornbeck and my seeing each because we wouldn't agree.

P: Yes

HM,Jr: But I would be delighted to come over and see Mr. Hull Monday.

P: All right - all right, I'll - I'll see to that - that Mr. Hull arranges that. I'll tell him.

HM,Jr: Will you?

P: Yes

HM, Jr: And will you hold it until then?

P: Hold it until then, yes.

HM, Jr: Thank you very much.

P: Yes, Goodbye.